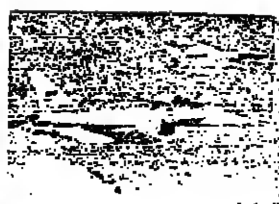

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Arms makers seek new alliances
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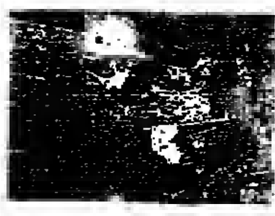

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New techniques to combat fraud
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Australia goes for growth
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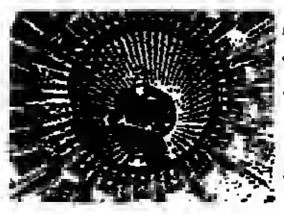

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Forest products
Separate sections

FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY MAY 17 1994

Eurotunnel aims for $1.27bn with latest rights issue

Eurotunnel is likely to seek about £850m ($1.27bn) in its forthcoming rights issue – 20 per cent more than expected by the stock market, dwarfing its four previous equity-raising exercises. The disclosure of the sharp increase in the Channel tunnel operator's refinancing requirements comes as it faces continuing problems in raising £700m of new senior bank loans. Page 21

BAT buys into Uzbekistan: BAT Industries, the UK cigarette and insurance giant, is to take a majority stake in the state-owned tobacco industry of the former Soviet republic of Uzbekistan. Under the agreement BAT will invest $200m during the next five years. Page 20

Fed meeting stabilises markets: US financial markets firmed as dealers anticipated that today's meeting of the Federal Reserve's policymaking open market committee would end the uncertainty over interest rates. Page 20

Malawi hopes for brighter future:

Malawi ranks among the 15 poorest nations in the world. Nearly half the country's children are stunted by malnutrition and seven out of 10 women cannot read. Many believe that today'a parliamentary and presential elections will end 30 years of domination by President Hastings Banda (left). But any new government will find it difficult to explain to impoverished Malawians that democracy alone is no guarantor of prosperity. Page 6

Barclays acts to offset losses: Barclays is to hedge itself partially against further losses on its £4.2bo UK property loan portfolio by issuing £150m of derivative debt securities to offset the risk. Page 21; Lex, Page 20

Wal-Mart winning discount store battle: Contrasting results from Wal-Mart and Kmart, the two biggest US discount store groups, highlight how Wal-Mart is continuing to grow at Kmart's expense. Page 21

Lufthansa heads back to black: Lufthansa is on its way back to profitability after three years of losses, according to the German airline's chief executive. Page 21

Moslems renew efforts at Tuzla: Moslem forces tried to push forward around Tuzla, the biggest Bosnian government stronghold in the north-east, as an upsurge of fighting defied renewed efforts to end the war in Bosnia. Page 3

Syria praises US peace efforts: Syria welcomed US efforts to broker progress in peace talks with Israel after US secretary of state Warren Christopher delayed his departure from Damascus for more talks before carrying the results of his discussions to Israel. Page 6

US Senate flexes its muscles: President Bill Clinton's conduct of foreign policy has been heavily criticised in academic and establishment circles, but increasingly the US Senate seems ready to act where most others merely write in complaint. Page 9

Oil links China and Saudi Arabia: Hisham Nazer, the Saudi oil minister now on his first visit to Beijing, will seek more extensive co-operation with China in the oil sector. Page 8

London police to carry guns: Armed police will become a more familiar sight in London under measures announced by the UK government. For the first time, some officers will be routinely allowed to carry guns in holsters. Page 10

Spanish pick-up boosts Telefónica: Telefónica, the partly privatised Spanish telecommunications group, showed a 15 per cent increase in consolidated net profit in the first quarter to Pta17.34bn ($126m). Page 22

Strikes challenge ANC government: Although South Africa's new government has been hoping to focus on development issues, strikes have brokeo out among South Africa's provincial government employees, and ambulance workers in Pretoria have walked out. Page 6

Quércia to run for presidency: Mr Orestes Quércia, one of Brazil's most controversial politicians, will run as presidential candidate of the country's largest party, the Brazilian Democratic Movement, following his victory in a party vote at the weekend. Page 9

STOCK MARKET INDICES

FT-SE 100:	3,115.6	(-3.6)
Yield	3.9	
FT-SE Eurotrack 100	1,471.75	(+3.72)
FT-SE-A All-Share	1,568.74	(-0.2%)
Nikkei	20,168.44	(-82.31)
New York: lunchtime		
Dow Jones Ind Ave	3,668.12	(+8.44)
S&P Composite	445.10	(+0.96)

US LUNCHTIME RATES

Federal Funds:	$4\frac{1}{8}$%
3-mo Treas Bills. Yld	4.219%
Long Bond	$85\frac{1}{4}$
Yield	7.446%

LONDON MONEY

3-mo interbank	$5\frac{7}{32}$%	($5\frac{3}{16}$%)
Liffe long gilt future:	Jun $105\frac{1}{32}$	(Jun$105\frac{1}{8}$)

NORTH SEA OIL (Argus)

Brent 15-day (July)	$16.135	(16.365)

Gold

New York Comex (June)	$383.7	(381.5)
London	$380.2	(380.35)

STERLING

New York lunchtime:		
$	1.5017	
London:		
$	1.5039	(1.5004)
DM	2.5174	(2.5012)
FFr	8.6315	(8.5776)
SFr	2.1453	(2.1369)
Y	157.273	(157.169)
£ Index	80.5	(80.1)

DOLLAR

New York lunchtime:		
DM	1.67455	
FFr	5.741	
SFr	1.42705	
Y	104.75	
London:		
DM	1.674	(1.6671)
FFr	5.7396	(5.717)
SFr	1.4265	(1.4243)
Y	104.58	(104.755)
$ Index	65.7	(same)
Tokyo close Y 104.87		

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$16	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft 185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00		
Czech Rp	CzK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00		
France	FFr9.50	Kuwait	Fils.625	Poland	Zl 32,000	Tunisia	Din1.500		
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	Turkey	L30000		
						UAE	Dh12.00		

Delors attacks German plan for EU deregulation

Divisions reopened over liberalising labour market

By Lionel Barber in Brussels

Mr Jacques Delors, president of the European Commission, yesterday launched a hlistering attack on a German plan, strongly supported by Britain, to push for faster deregulation inside the European Union.

His intervention reopened political divisions over the degree to which the EU should promote labour market liberalisation in order to strengthen competitiveness and tackle unemployment.

But it also reflected fears in Brussels that Germany, the Union's most powerful member, may be tempted to challenge the Commission on industrial and social policy.

Mr Delors' message was delivered to two meetings of EU finance and foreign ministers in Brussels. He singled out for criticism a German economics ministry initiative to create a taskforce of experts to root out unnecessary Euro-legislation.

But Mr Kenneth Clarke, UK chancellor of the exchequer, said the proposals put forward by Mr Gunter Rexrodt, German economics minister, were an "excellent idea". British experience showed that the only way to make progress on deregulation was to bypass the bureaucracy, he said.

"President Delors is resisting this," Mr Clarke said. "He gave a splendid illustration of how bureaucracy will not reform its own procedures and is somewhat impervions to suggestions that we might make faster progress in relieving the hurden on industry caused hy excessive legislation."

Mr Theo Waigel, German finance minister, atressed that the Rexrodt plan should not be seen as signalling mistrust towards the Commission. Other German officials noted Mr Rexrodt's initiative was unveiled ahead of a German election campaign in which it was important to address the concerns of German Eurosceptics.

Other countries, notahly Belgium and Portugal, warned that efforts to roll back Brussels' legislation risked damaging the European single market and the Commission's authority.

France, whose rightwing coalition government is struggling to balance its commitment to privatisation and liberalisation without incurring higher unemployment, remained on the fence.

Ironically, it wss Mr Delors who propelled the debate over deregulation to centre stage with his request, a year ago, to prepare a discussion document on jobs, growth and competitiveness. The 12 heads of government endorsed the paper at the Brussels summit last December. The paper was more in favour of labour market deregulation than expected, hut strongly defended the social chapter of the Maastricht treaty, which seeks to preserve trade union influence.

Aides to Mr Delors stressed that the Commission president was not opposed to deregulation, and they pointed to his call yesterday for a "big step" towards faster deregulation of Europe's telecommunications market.

But they added that the Commission president was concerned that the UK and Germany had "hijacked" the message of labour market deregulation at the expense of the rest of the document.

In particular, they pointed to its call for generous financing of so-called trans-European networks – the huge, multi-billion dollar investments in road, rail, energy and telecommunications.

Mr Delors' fears appeared to have been confirmed when EU finance ministers again blocked Commission efforts to win support for special funding for the networks.

Brussels chief draws a line in the sand, Page 3

Silvio Berlusconi, Italy's new prime minister, pictured in parliament yesterday, has pledged that his government will expand the country's role in Europe and seek to widen its influence in international affairs Report, Page 20

Picture: Reuter

EDS and Sprint in talks on 'strategic alliance'

By Martin Dickson in New York

General Motors said yesterday it was considering spinning off its Electronic Data Systems subsidiary to pave the way for a possible merger or strategic alliance between EDS and Sprint, the US telecommunications group.

EDS and Sprint simultaneously confirmed that they were in talks which could lead to a "merger of equals" or other types of alliance.

A marriage between EDS, the world's largest computing services company, and Sprint, the third largest long-distance US carrier, would create a new information services powerhouse, with annual revenues of more than $20bn. GM said EDS would best be able to pursue a strategic alliance if it were an independent company.

EDS has held discussions with numerous potential telecommunications partners in recent years – including British Telecom – but has found it hard to clinch an alliance because of its unusual ownership structure.

GM, which acquired the company in 1984 from its founder, Mr Ross Perot, retains ownership of its assets, but holders of a special type of GM stock, known as class E, have a claim on EDS's dividend stream.

GM said yesterday it was considering spinning off ownership of EDS to Class E stockholders through an exchange of shares, provided this transaction was tax free. GM bought EDS for $2.5bn, but the company now has a market value of around $15bn, so sale of the group could trigger a large tax liability. It will be up to the US internal Revenue service lo decide whether the spin-off is for legilimate business purposes rather than tax avoidance.

GM said the spin-off would be dependent on two other factors. It must be able to conclude a plan, announced last week, to inject the remaining $6bn of class E stock held by its treasury into its underfunded pension plan; and the spin-off must not result

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World stocks, Section II

Share price to be set next month for biggest flotation seen on Amsterdam stock exchange

Dutch telecoms sell-off may raise over $4.2bn

By Ronald van de Krol in Amsterdam

Shares in the state-owned Dutch postal and telecommunications company are to be sold to investors early next month at between Fl 46 and Fl 52 each, valuing the company at Fl 21bn to Fl 24bn ($10.9bn-$12.5bn).

The Dutch government, which yesterday released details of the long-awaited sell-off, said it would float up to 138.15m shares in Koninklijke PTT Nederland (KPN), representing 30 per cent of its 100 per cent holding in the company. The banking syndicate, led by ABN Amro, will be allowed to sell an additional 20.72m shares if demand is heavy.

If the shares are offered at the top end of the range and the banks exercise their option to sell the extra tranche of shares, the flotation could raise more than Fl 8bn for the state.

At the lower end of the range, the shares would still be worth more than Fl 6bn, making the flotation the biggest in the history of the Amslerdam stock exchange.

The price per share will be announced on June 6 after a book-building period among institutional investors. The subscription period opens the same day end runs until June 9 with trading in KPN shares expected to start on June 13.

The price range of Fl 46 and Fl 52 is roughly in line with predictions hy analysts, who had forecast a flotation price of between Fl 45 and Fl 55.

About half the shares are likely to be sold in the Netherlands, with the rest divided among the UK, US and the rest of the world.

Late last month, the banking syndicate announced that private investors would receive a price discount of about 5 per cent on allotments up to 75 shares. They will also be given preferential treatment in tbe allocation of shares, though details have not yet been released.

Government officials said yesterday some 200,000 potential private shareholders had requested detailed information about the flotation.

Mr Wilco Jiskoot, ABN Amro's senior executive vice-president for equity and merchant banking, said "pre-marketing" talks had been held with 1,000 institutional investors around the world in the past three weeks.

The company's first roadshow took place yesterday in Amsterdam. Roadshows will be beld in more than 20 other financial centres in Europe, North America and East Asia.

The shares are to be listed in Amsterdam and on Seaq international in London. KPN is expected to spply for a listing in New York by the time the government sells a second tranche of shares in two or three years. The Dutch state's eventual aim is to reduce its shareholding to about 30 per cent.

Background, Page 22
Lex, Page 20

Greek interest rates soar amid fears of devaluation

By Kerin Hope in Athens

Greek interest rates soared to record levels yesterday amid speculation the government may he forced to devalue the drachma, following its surprise decision to free short-term capital movement.

To avoid renewed pressure on the Greek currency, the central bank raised the overnight borrowing rate from 30 per cent to 33 per cent and imposed a surcharge of 0.4 per cent daily – equivalent to an annual rate of 186 per cent. The three-month interbank lending rate shot up to 48.5 per cent from 25 per cent on Friday.

The interest rate rise seemed to have the desired effect, with the drachma holding its own yesterday against major currencies, closing yesterday at Dr148.2 against the D-Mark compared to Dr147.70 on Friday and at Dr247.9 against the dollar compared to Dr247.1 on Friday.

Dealers said the surge in interest rates, which saw the one-month interbank rate touch 70 per cent, reduced pressure on the drachma early in the day and the central bank was not forced to intervene. Last week, the Bank of Greece spent some $1hn out of foreign exchange reserves totalling around $9.5hn to support the currency.

The government lifted all restrictions on short-term capital movement at the weekend, six weeks ahead of schedule, in an attempt to ease mounting pressure on the drachma. Central bank officials said overnight interest rates (including the surcharge) would go "into four figures if necessary" to protect the currency.

But analysts said pressure on the drachma would quickly resume as such high interest rates could not be sustained for a long period. A fall in rates would fuel fears of a devaluation.

On ths other hand, the government would be reluctant lo devalue the drachma ahead of next month's European parliament elections. A devsluation would most likely lose the Socialists several percentage points at the polls in June, in their first electoral test since taking office last October.

Instead, the central bank may have to abandon its "hard drachma" policy, intended to restrict depreciation this year to around 7 per cent, and let the currency slide more rapidly. "We should expect increased depreciation, perhaps an extra 3 and 5 per cent, over the next couple of weeks," said Mr Spiros Damaskos of Sigma Money Brokers.

The Bank of Greece is in the uncomfortable position of having to defend the drachma on its own, as Greece has never joined the European Union's exchange rate mechanism, which would allow it to call on other EU central banks for support.

The government is relying on today's issues of Ecu- and dollar-linked bond issues at higher interest rates to prevent a heavy outflow of capital and boost foreign exchange reserves.

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NEWS: EUROPE

Riva sets its sights on new steel target

By Andrew Hill in Milan and Judy Dempsey in Berlin

Riva, the private Italian steelmaker, has joined forces with German and Italian steelmakers to bid for the special steels division of Ilva, Italy's state-owned steel company, only days after dropping its offer for Eko Stahl, the east German manufacturer.

Fried Krupp of Germany and the Italian companies Riva, Falck and Tadfin, lodged a bid last week for Acciai Speciali Terni, one of two main Ilva divisions to be privatised.

News of Riva's decision to abandon its offer for Eko Stahl emerged on Friday and the Italian company has refused all comment on why it broke off negotiations with Germany's Treuhand privatisation agency.

In a statement issued yesterday by Lazard and Morgan Grenfell Italia, which are advising the Italo-German bid for AST, the members of the consortium promised "a long-term commitment" to the state-owned company.

Iri, the Italian state holding company, is also reported to be considering offers from Steno Marcegaglia of Italy and the French-owned Ugine, and two separate bids for the flat steel division of Ilva.

The Treuhand, meanwhile, is looking for a new buyer for Eko Stahl. It has been trying to sell the company for three years and the European Commission had approved a DM813m ($487m) German government subsidised modernisation plan provided privatisation was complete by June 30 this year.

The agency has wanted to modernise the plant by integrating its steelmaking and its steel processing operations. That would involve building a new hot rolling mill. At present, Eko Stahl ships its slabs for hot rolling to plants in western Germany. These are then returned and cold rolled.

Eko Stahl and the Treuhand have struggled to find credible ways in the past few years to sell the plant. One plan involved converting the site into a large modern mini-mill to melt scrap metal. This would have allowed them to close the last two working blast furnaces, but would have involved heavy job losses.

Even with steelmaking retained on the site, the modernisation plan – which would save 3,000 jobs until the end of they year and guarantee 1,700 until 2004 – is viewed with scepticism by the industry

Mr Ken Iversen, chairman of Nucor, a large integrated mini-mill operation based in North Carolina, has his doubts.

"In terms of efficiency, the management might just about get away with it with these large numbers. But I am not so sure," he said. "It would be difficult to save lots of jobs and have efficiency at the same time."

Eko Stahl employed more than 12,000 before German reunification in 1990.

St Petersburg's belief in better times fades

Reform has brought citizens little more than hardship, writes **Leyla Boulton**

Europe's changing cities

A bust of Felix Dzerzbinsky, founder of Soviet Russia's hated secret police, still decorates the lobby of St Petersburg's police headquarters. Other than that, little tangible is left of the communist era as Russia's second city forges ahead with pioneering market reforms that have brought its inhabitants hardship, bewilderment, and mixed hopes for the future.

Mayor Anatoly Sobchak, a pro-western reformer, dreams of transforming this port city of 5m people into an important financial centre and haven for foreign investment. Convincing the European Bank for Reconstruction and Development to hold its annual governors' meeting in St Petersburg last month was part of his efforts to "sell" the city to the outside world.

But the main challenge facing him and other liberals around the country is ensuring that market reforms deliver tangible benefits for ordinary people in time for presidential and parliamentary elections due in 1996.

Few of his fellow citizens believe he can. Popular cynicism is such that city council elections last month almost aborted when turnout – traditionally high in the Soviet era – only reached the required 25 per cent minimum after polling was extended by a day.

The discontent centres on crime and corruption, an inability among pensioners and the lower paid to make ends meet, nostalgia for the fixed prices and safe streets of the old order, and a lack of investment to restructure or convert St Petersburg's numerous defence plants to civilian uses.

On the bright side, foreign and local investment in the retail sector has already contributed to a boom of western-style shops, restaurants and hotels in a city with considerable tourist industry growth potential. A few big companies – such as Gillette, ABB, and Unilever – have started to invest in the city's ailing manufacturing sector. But the trickle of investment has yet to turn into a flood.

"We can handle political instability, inflation, and even the Mafia," says an executive for RJR-Nabisco, which makes cigarettes at a privatised local tobacco plant. "But what we can't handle is the unstable legal and tax regime. That's where it all breaks down."

Mayor Anatoly Sobchak dreams of transforming the city into an important financial centre

Mr Sobchak says that his plans for an economic renaissance are hampered not just by psychological and bureaucratic barriers to investment but by the "slowness" of the Russian parliament and government in taking the decisions he needs from them. These range from state subsidies for transport to lower business costs, a reduction in companies' tax burdens, and new laws to fight economic crimes ushered in by market reform.

Although he has already talked three western banks, the BNP-Dresdner alliance and Crédit Lyonnais, into setting up subsidiaries in the former imperial capital, they have found little to do.

Lacking both the volume of Moscow's forex market and the capital's range of western corporate clients, western banks, as everywhere else in Russia, are nervous about local lending opportunities.

"If Sobchak wants to make the city a financial centre, he has to offer appropriate incentives," says Mr Yevgeny Yelin, head of St Petersburg's Currency Exchange, where well-dressed dealers trade dollars and D-Marks underneath a portrait of Catherine the Great. That has not stopped his exchange and 27 leading banks and investment funds from initiating a regional system for clearing share transactions in an effort to build a western-style stock market.

However, despite Mr Sobchak's help in securing premises for western companies, Russian entrepreneurship has so far flourished in spite of, rather than thanks to, the authorities. A living embodiment of this state of affairs is Mr Vladislav Gerasimov, an ex-navy captain who, three years after acquiring the city's first privatised shop, has become a millionaire. This summer he plans to start manufacturing the womens' shoes he has been importing from China, at a new factory employing 400 people.

But the price he has to pay for driving a top-of-the-range Mercedes, owning a beautiful house and having a daughter who has learnt fluent English at private school and visited 12 countries, is to keep himself "free of enemies". This means paying off not just the criminal Mafia, which at least does favours for him in return, but also corrupt officials.

"All I encounter from the state are extortion attempts by bureaucrats. If I knew that my money was being spent usefully I would not try to avoid paying taxes," he says.

Major General Arkady Kramariev, the city's police chief, who admits that corruption is rife among city officials, the judiciary, and even his own men, says the good news is that crime fell 11 per cent in the first quarter of this year. St Petersburg, with 845 murders last year compared to 150 a decade ago, is now only as dangerous as the most crime-ridden cities of western Europe but still safer than New York or Washington.

Gen Kramariev says that much of the crime nowadays is due to an antiquated legal system which cannot cope with the requirements of a market economy. When, for instance, businessmen refuse to repay their debts, creditors' only resort is "Judge Kalashnikov" because by the time a court takes a decision it is "meaningless".

A large part of the problem is psychological – with an increase in domestic crime due to a loss of old certainties. Many citizens are convinced life is getting worse even if, in some areas, it is getting better.

Despite earning a decent monthly salary of Rbs365,000 thanks to government attempts to strengthen law enforcement, Captain Victor Koverzin, a police officer who patrols the city's elegant tourist area, plans to vote for Mr Vladimir Zhirinovsky, the ultra-nationalist leader, as the country's next president. His wife has been in effect laid off by a defence plant which has been closed since January but continues to pay her Rbs25,000 a month, just enough to buy a pair of shoes at one of Mr Gerasimov's stores. While Capt Koverzin does not believe all Mr Zhirinovsky's promises, he thinks that "at least the world will stop pushing us around" if one of the few leaders "untainted by office" comes to power.

Mr Alexei Kudrin, the deputy mayor responsible for economics, is optimistic that economic reform will produce an upturn in time for 1996. "The next two years will see the economic crisis peak, with unemployment and restructuring of enterprises. Hopefully, by that time there should also be some results, with the creation of new jobs and new manufacturing capacity."

The big unknown is whether an increasingly weary public will sppreciate the improvements by the time they take place.

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EUROPEAN NEWS DIGEST

Russian loses ministerial job

Mr Sergei Shakhrai, 38, a Russian deputy prime minister, became the first casualty of the recently reformed Russian cabinet when he yesterday lost his post as nationalities minister, though he kept that of deputy premier.

His successor, Mr Nikolai Yegorov, is a governor of the Krasnodar region who has shown conspicuous loyalty to Russian President Boris Yeltsin and appears to be benefiting from it. Like Mr Shakhrai, he is from a Cossack background. The Russian press has speculated that Mr Shakhrai's loss of position stemmed from his sturdy opposition to Mr Dzhokar Dudayev, president of the breakaway autonomous Russian republic of Chechnya – with whom the Russian president is now seeking a rapprochement.

Mr Shakhrai had earlier called for presidential elections in Chechnya as a condition for talks with a man who has defied Russian central authority for more than two years.

Mr Shakhrai had created a centrist grouping in the small but influential Party of Unity and Accord, which boasts two deputy prime ministers, Mr Shakhrai and Mr Alexander Shokhin, the deputy prime minister for the economy. Both have taken a centrist position after some time in the liberal camp, and both have strongly supported Mr Victor Chernomyrdin, the prime minister. *John Lloyd, Moscow.*

Portuguese bugging row grows

The discovery of a hidden microphone in the Portuguese attorney general's office and allegations that other leading officials are subject to electronic surveillance are producing a climate of intense suspicion in the country, with parliamentary deputies, political parties, trade unions and other bodies calling for police to search their premises for bugging devices.

Mr Anibal Cavaco Silva, the prime minister, has ordered a full-scale investigation to find out who placed the miniature microphone under floorboards directly beneath the chair of attorney general José Cunha Rodrigues. Suspicion fell on the government intelligence service, SIS, after Mr Joaõ Maria Marques de Freitas, attorney general on the Portuguese island of Madeira, accused SIS agents of placing an electronic bug in his office.

Press reports that the telephones of at least five cabinet ministers were also being tapped has led to suggestions that commercial espionage might be involved. Some of the ministers have been engaged in the adjudication of important government contracts. *Peter Wise, Lisbon.*

New French daily launched

The beleaguered French press yesterday gained yet another new recruit when the first issue of Paris 24.00 landed on the capital's news-stands despite production problems that halved the size of its print-run.

Paris 24.00 managed to produce only 50,000 of a planned 110,000 copies, but its first issue was virtually sold out by lunchtime. The new daily, which is aimed at the mass market with a mini-tabloid format and FFr3 cover price, is described by Philippe Lecardonnel, editor-in-chief, as a "city paper" that could be "read in 15 minutes on the metro without getting your fingers dirty or poking your neighbour in the eye". Paris 24.00 is the third new daily launched in France this year. InfoMatin and Aujourd'hui, two tabloids which were introduced in January, have seen their daily sales settle at 95,100 and 74,000 respectively. *Alice Rawsthorn, Paris.*

Peugeot chief warns on sales

Mr Jacques Calvet, chairman of Peugeot Citroën, the French motor group, yesterday warned that the French car market was still in a fragile state and that sales were likely to fall again once the short-term stimulus provided by the government's incentive scheme wore off. The car market was badly affected by the recession last year, with the number of new car sales falling by 18.3 per cent. However a government scheme to offer payments of FFr5,000 to people trading in vehicles more than 10 years old to buy new cars helped to fuel a 13.8 per cent sales increase during the first four months of this year. Yet Mr Calvet said on French radio that the scheme was likely only to have a short-term effect and that car sales "may fall or even return to a relatively weak level" when it ends next year. *Alice Rawsthorn, Paris.*

Strike to close Greek airports

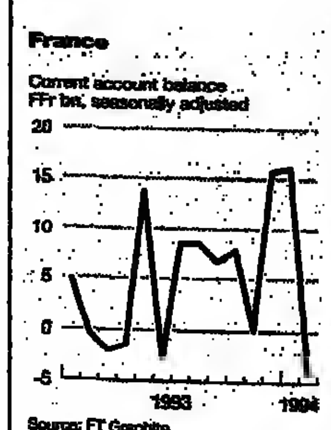
Greek air traffic controllers announced a 48-hour strike beginning today that would paralyse the nation's airports and create chaos for thousands of fans arriving for the European Champion's Cup football final tomorrow evening. A civil aviation union official, Mr Dimitris Petrissis, said yesterday the walk-out was called to protest against legislation under debate in parliament placing civil aviation employees under the control of local governors. About 300 extra flights were scheduled to arrive in the next 24 hours from Spain and Italy carrying fans for the AC Milan-Barcelona game. *AP, Athens.*

SPD criticises business chiefs

The German opposition Social Democrat (SPD) leader, Mr Rudolf Scharping, has rebuked business leaders for throwing their weight behind the conservative chancellor, Mr Helmut Kohl, ahead of elections on October 16. In a letter to Mr Hans Peter Stihl, head of the German Federation of Chambers of Commerce (DIHT), made public yesterday, Mr Scharping defended his party's policies and denied that taxes would rise under an SPD government. Mr Stihl said last week that an SPD victory would be bad for the economy and the labour market. "Your taking sides with the ruling coalition is one-sided and based on false premises," Mr Scharping said in the letter. *Reuter, Bonn.*

ECONOMIC WATCH

French current account slips



Source: FT Graphite

France's current account slid to a FFr4.3bn (£500m) seasonally adjusted deficit in February from a FFr16.1bn surplus in January, the economics ministry said yesterday. The ministry said that the deficit reflected interest coupon payments on French government bonds to non-residents and an unusually large French contribution to the European Union that month. The government said that its definitive surplus for 1993 was FFr59.5bn, or 0.5 per cent of gross domestic product, compared with FFr20.5bn, or 0.3 per cent of GDP, in 1992. France had a basic balance of payments deficit in February of FFr51.68bn, compared with a deficit of FFr24.42bn in January and a surplus of FFr13.90bn in February 1993, the ministry said. The cumulative deficit in the first two months of 1994 was FFr76.10bn, compared with a surplus of FFr30.65bn in the first two months of 1993.

■ Italy's public sector deficit narrowed to a provisional L16,100bn (£6.7bn) in the period January-February 1994 from a L21,410bn deficit in the corresponding period of 1993, the treasury announced yesterday.

■ Norway's trade surplus rose to NKr2.86bn (£264m) in April from NKr1.67bn in March, the Central Bureau of Statistics said. The cumulative January-April surplus fell to NKr14.95bn from NKr20.81bn in the same period a year ago.

■ Denmark's unemployment in the first quarter of 1994 rose to 13.7 per cent of the workforce, compared with 13.0 per cent in the first quarter of 1993, according to the Danish national statistics agency.

French airline in Heathrow complaint

By David Buchan in Paris and Jenny Luesby in London

The Anglo-French "airport war" yesterday took another twist as Air Liberté, a small private French airline, said it was complaining to the European Commission about its failure to get adequate slots to open a service to Heathrow.

Mr Cédric Pastour, deputy director of Air Liberté, said his company was taking precautionary action so that "if we do not get satisfaction out of the new negotiations between the French and British governments... Brussels will take up our case".

Over the weekend, the two governments agreed that by the end of June, British Airways and UK Air could start flying into Orly, the main domestic French airport, in return for French carriers getting better access to Heathrow.

Mr Pastour said there was a particular problem for new airlines at Heathrow. Air Liberté had last November requested four landing and takeoff slots at Heathrow, he complained, only to have half of them refused last week and the other half granted "in an commercially unusable form", such as having to keep an aircraft at the UK airport for 5½ hours.

The British Airports Authority, which runs Heathrow airport, said yesterday that all slots were allocated every November by Airports Co-ordination Limited, an independent company. The decision on Air Liberté slots would have been made according to IATA rules, it said, and without prejudice.

There is intense pressure on slots at Heathrow, with the limited access to the airport having already led to a breakdown in talks between the US and UK on the renegotiation of their bilateral air agreement.

The problem has been greatest for new airlines and airlines seeking access to Heathrow as part of the European Union's "open skies" policy of deregulation, with over a third of Heathrow's slots already allocated to British Airways.

Virgin and American Airlines are just two of a large number of airlines that have complained of delays in launching new services, or continuing limits on their services, due to the lack of availability of Heathrow slots.

Earlier this month, the British Air Transport Association, which represents UK airlines, complained that all of the 520 daily departure slots available at Heathrow this summer, all were already booked, while 496 of the 517 daily arrival slots were pre-booked.

The association is pushing for an extra runway in the Heathrow and Gatwick catchment area as soon as possible to alleviate the problems of congestion.

Meanwhile, only a few flights to Corsica are expected to escape today's strike at Air Inter, the domestic carrier belonging to Air France, held in protest at its imminent exposure to foreign competition. Mr Bernard Bosson, the transport minister, yesterday said the strike was "comprehensible, but not the solution".

Common free trade zone by end of the century is the aim

EU close to Russia-Ukraine deal

By David Gardner in Brussels

The European Union is poised to cement a close relationship with Russia and Ukraine at next month's heads of government summit in Corfu which would lead to a common free trade zone by the end of the century.

Following a meeting in Brussels of the Twelve's foreign ministers, all now hinges on a visit to Moscow later this week of France's foreign minister, Mr Alain Juppé, aimed at resolving residual French objections on Russia's exports of enriched uranium.

The EU has already initialled a "partnership" agreement with Ukraine, and yesterday all but overcame French objections to a similar but broader agreement with Moscow, which should be ironed out before Corfu.

If achieved, both agreements are seen by the EU as the foundations of a stable relationship with profoundly unstable and powerful eastern neighbours, and the necessary preconditions for the EU's common foreign and security policy.

"It's going in the right direction," said a spokesman for Sir Leon Brittan, EU external economic affairs commissioner.


Spain's Foreign Minister Javier Solana (left) laughs with Mr Antonio Martino, the new Italian foreign minister, who was making making his debut at a Brussels ministerial meeting yesterday AP

The hope is that both Mr Boris Yeltsin, the Russian President, and Mr Leonid Kravchuk, his Ukrainian counterpart, will be in Corfu on June 24 to close the deal.

The controversies which have snagged the negotiations with Russia have now been largely resolved. Moscow has agreed a safeguards regime to prevent sudden export flows of uranium fuel which might undercut French production for its network of nuclear power plants. The EU and Russia have also arrived at a *modus vivendi* on treatment of foreign banks working within the Russian federation.

Paris nevertheless insists on further guarantees over Russian uranium exports beyond the planned expiry date of the safeguard regime in 1997. Mr Juppé is looking for a quotas agreement in his Moscow talks this week, but EU diplomats believe France values an overall deal with Moscow too highly to jeopardise it over the fine print.

The Ukraine deal, although it was reached earlier and for that reason alone has convulsed foreign ministries across the European Union, still awaits additional agreements on how to finance the complete shutdown of the Chernobyl nuclear complex.

The EU wishes to develop a separate policy towards Kiev, through food aid, macroeconomic support and possibly very expensive aid to build alternative nuclear reactors.

The potential cost of this, estimated at between Ecu500m ($580m) and Ecu1bn, was underlined yesterday by Mr Douglas Hurd, UK foreign secretary, who, like his EU colleagues, wants to share the cost with the US and Japan.

"We will have to come back to this, particularly on Chernobyl," Mr Hurd said, referring to the summit of the Group of Seven industrial countries in Naples in July.

Brussels chief draws a line in the sand

Lionel Barber assesses the reasons for yesterday's outburst by Jacques Delors

For most of this year, Mr Jacques Delors has been as quiet as a church mouse. But yesterday he confounded those who hoped he might be ready to leave Brussels quietly after 10 years as head of the European Commission.

Mr Delors' outburst against Mr Günter Rexrodt, the German economics minister and champion of deregulation, signals he is prepared to fight to the last minute over how to strengthen Europe's competitiveness without destroying the European social market model.

But the Delors-Rexrodt clash is also about power, about how far the Commission should hold sway over European industrial and social policies.

In the past year the power of Brussels has visibly diminished

Mr Rexrodt, a Free Democrat who has one eye on the coming German general election, believes his campaign for a European deregulation initiative has strong support among German business. He wants to create a group of independent experts to root out Euro-legislation which could harm employment and growth.

The German initiative, which has enthusiastic British support, drew a withering response from Mr Delors at yesterday's sessions of European foreign and finance ministers. He wondered aloud whether Mr Rexrodt's real goal was to gut the Maastricht treaty's social chapter; or whether he was aware that ministers – not the Commission – were responsible for passing onerous legislation in areas such as the environment.

Mr Kenneth Clarke, UK chancellor of the exchequer, retorted that Mr Delors was acting like any good bureaucrat in defending his territory. But that is not the whole story.

In the past year or so, mainly as a result of the debilitating struggle to ratify the Maastricht treaty, the power of the Commission has diminished visibly. So, too, has its role as power-broker and umpire inside the EU, to the point where member states are increasingly challenging its authority.

- Last week, France declared it was not willing to carry out a Commission ruling in favour of opening up Orly airport to competition. The issue was defused at the weekend, but only after bilateral UK-French negotiations in which Brussels played no role.
- Germany declared it was ready to take unilateral action against imports of British beef because of suspected mad cow disease. The threat remains on hold.
- This year, Greece ignored Commission warnings (and the Treaty of Rome) in slapping a trade embargo against the former republic of Macedonia.
- France is leading a bloc of EU member states questioning the Commission's "community competence" to negotiate trade agreements on the part of the Twelve. "Suspicion after the Gatt trade agreement is at an all-time high," says one senior Commission official.

Some observers view these challenges as part of a trend of "creeping unilateralism" in which member states are pursuing their national interests aggressively at the expense of the common good which the Commission is supposed to define and represent.

Mr Delors is clearly worried that Germany, the most powerful and populous country in Europe, may be tempted to stir up greater mistrust of the centre – either under the guise of the Rexrodt initiative, or through the concept of "subsidiarity", the code-word for devolving decision to the lowest national, regional or municipal level.

Germany takes over the rotating presidency from Greece on July 1. Chancellor Helmut Kohl has already declared his determination to "free ourselves from the notion that everything that has a European dimension automatically falls under the jurisdiction of Brussels" and make this a presidency priority.

Mr Delors' aides say they are worried about Mr Rexrodt more than Mr Kohl; but Mr Delors' intervention yesterday still looks very much like a pre-emptive strike against the incoming German presidency ahead of the European summit in Corfu next month.

Forces defy fresh Bosnia peace efforts

By Laura Silber in Belgrade and Chrystia Freeland in London

Moslem forces yesterday tried to push forward around Tuzla, the biggest Bosnian government stronghold in the north-east, as an upsurge of fighting defied renewed international efforts to end the war in Bosnia.

Sarajevo radio said the Bosnian army had advanced on Mount Majevica, high ground overlooking Tuzla, one of six UN "safe areas" in Bosnia. The radio also said the centre of Tuzla and the north-west part of the Tuzla airfield came under Serb fire. Serbian radio, quoting military sources, confirmed heavy fighting in the region. The Bosnian army push is seen as a move to strengthen the land links between Sarajevo, Tuzla and Zenica, the three main government strongholds in Bosnia.

Some European observers felt the international community's failure to come out clearly in favour of a specific peace plan has fuelled the renewed fighting.

In particular, Mr Warren Christopher, US secretary of state, has been criticised for agreeing on Friday to a deal giving the Moslems and Croats 51 per cent of the territory and then appearing to contradict this position on Sunday by acknowledging the possibility that the Moslem-Croat Federation might win as much as 58 per cent of the land.

The Moslem-Croat offensive may also have been encouraged by the US Senate's vote last week, urging the US government to lift the Bosnian arms embargo. ..

General Sir John Wilsey, joint commander of British Forces in the former Yugoslavia, told reporters yesterday that "uncertain political messages make things difficult for us on the ground."

In Belgrade, Mr Vitaly Churkin, Russia's special envoy, met Serbian president Slobodan Milosevic and called for the urgent implementation of a plan, agreed on Friday in Geneva at a meeting of the foreign ministers from Russia, the US, and the EU.

Mr Churkin said Mr Milosevic "very strongly supported" the immediate cessation of hostilities, but was leaving it to the Bosnian Serbs to decide on the other aspects of the plan.

The agreement calls for a four-month ceasefire and for the Bosnian Serbs to keep 49 per cent of the war-torn country with the remaining 51 per cent allotted to the newly created Moslem Croat federation.

Mr Nikola Koljevic, vice-president of the self-styled Serbian state, offered the possibility that the Serbs may consider the settlement, although Bosnian Serbs have previously rejected the deal, demanding 70 per cent of Bosnia.

Speaking to a Serbian newspaper, he said: "The Serb side is ready to change the borders [on the basis of the 51:49 split] inasmuch as this creates a functioning state. As long as this would mean that the international community would consider trading quantity for quality."

A jobless problem that recasts Euro-debate

By David Buchan in Roubaix

EUROPEAN ELECTIONS June 9 and 12

To judge by the behaviour of other French cities, Roubaix should be in flames by now. With 28 per cent of its workforce jobless, it has an unemployment rate that is more than double that of other French cities end towns which saw violent street protests this spring against e proposed cut in the minimum wage to promote youth employment.

But this traditional north-eastern textile town of 90,000 has stayed relatively calm, perhaps because of the attention paid it by the government, whose prime minister and interior and urban affairs ministers have all taken care to visit it in recent months.

There is no question thet unemployment is the predominant political issue in Roubaix as much in the current campaign for the European Parliament election next month as in any local or national poll. But the broed Euro-debate on unemployment, pitting the right's argument in favour of flexible pay and labour markets against the left's emphasis on increased training and work-sharing through shorter hours, is re-cast in Roubaix in far more basic terms.

Before launching into debates about more vocational training, Roubaix first needs to tackle "the problem of the more than 30 per cent of its kids who leeve school at 16 without being able to read or write," says Mr Jean-Philippe Leclerq, the head of the town's new special employment directorate.

Equelly, before getting worked up, like the rest of France, about changes in the so-called Smic minimum wage, Roubaix has a more fundamental problem. This, says Mr Leclerq, is that an increasing number of Roubaisiens simply prefer to draw France's basic RMI welfare premium, rather than seek a full-time job (on the Smic or not).

At FFr2,400 (£281) a month, the RMI is less than half the Smic, but by doing some work "on the black", they can do just as well as Smic-earners with half the effort. (If someone refuses a job offer, under French law they cannot have their welfare payments or family allowances docked, Mr Leclerq complains.)

"With 4,000 on welfare and 11,000 people on unemployment dole, Roubaix, relative to its size, has the worst situation in France," says Mr Leclerq. Jobs exist in the town – 46,000 in all – but most of them go to people from the surrounding area, because Roubaisiens don't have adequate skills or interest.

Mr Leclerq points to Roubaix's textile industry, given a new lease of life by having its products sold by the mail order industry, for which Roubaix is the centre.

"The problem is that the mail order companies want people with computer skills, while the tailoring companies are now largely staffed by people from south-east Asia, like Thailand or Cambodia." Young Ronbaisiens "just don't want to re-enter a trade – textiles – from which their parents were made redundant", says Mr Leclerq. "I know, because we have set up two workshops for apprentices and can't fill all the places."

More troubling to Mr Leclerq is that of the 600 new low-skilled jobs created in the town each year, Roubaisiens fill only about 200. "Even jobs like being a cleaner or a building, parking or garden attendant; require people being able to read instructions and being able to move around the city transport city system if need be."

But in coping with its huge unemployment, Roubaix has something older than France's Fifth Republic or the European Union on which to fall back – a rich, almost medieval tradition of private associations whose members look after each other. The town has some 800 associations, which have spread to embrace many in the large community of Maghreb origin; after the 1958 devaluation of the franc discouraged Belgians from coming, Roubaix almost literally sent out the boats to north Africa for people to work its textile mills.

"These associations start with some leisure activity, often sporting, but frequently then go on to organise post-school education or homework sessions," says Mr Mohammed Benguessi, deputy director of the Foyer de Jeunes Travailleurs.

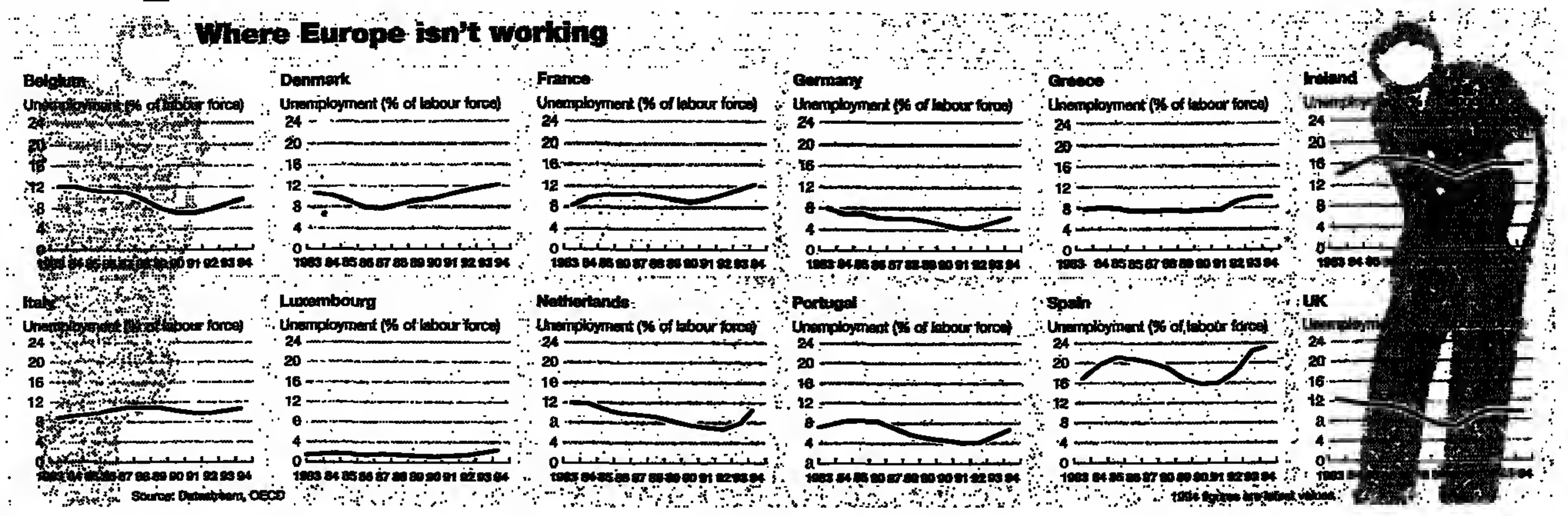
The Foyer also tries to place young people in their first job, not an easy task, says Mr Benguessi who meets e certain amount of anti-Maghreb prejudice from employers.

In general, Roubaisiens ruefully agree with the Delors White Paper's conclusion that "there is no miracle cure" to unemployment. They appear to expect little possible improvement as a result of the Euro-elections, or indeed any other election, pinning more hope on their own local efforts.

But there is also a specifically French reason why Roubaisiens and their co-citizens are apathetic about the Euro-elections. It lies in the "national list" system France still uses for Euro-elections, whereby the country is considered as just one big constituency represented by 87 Euro-deputies who get elected according to the relative tally that their party amasses nation-wide.

It is a pure system; unlike regional or single-member constituency systems, no votes are "wasted", but nor is there any geographic identification between a French Euro-MP and his or her electorate. So, Roubaix has no Euro-MP it can call its own or complain to.

All French parties now recognise this as a weakness that has compounded the sense of remoteness of their Euro-MPs from their voters, and one that needs changing.



UNEMPLOYMENT UNLIKELY TO HAVE A BIG INFLUENCE ON VOTERS

The last time Europeans went to the polls to elect e new European Parliament in 1989 registered unemployment in the region was nearly 5m lower than it is today, writes David Goodhart, Labour Editor.

But given the intractability of the jobless problem, and the universal political commitment to resolving it, unemployment may have surprisingly little impact on voting patterns next month. In 1989 unemployment was heading down towards the cyclical low of 8.3 per cent, reached the following year. It is now stabilising at a cyclical high of around 11 per cent. In actual numbers it was then about 14.5m and it is now 19m.

But in most large European Union countries the electorate has lived with persistently high unemployment for nearly two decades and any party offering a quick-fix solution would face a large credibility gap.

The differences between left and right on the issue have become more not less blurred in the past few years.

The right has traditionally stressed labour market de-regulation while the left has placed more importance on active labour market policy and macro-economic stimulus. Increasingly, the policy mix transcends these polarities. Where the left has been out of office, as in Britain, it has been easier to make some running on the issue. But in France, for example, the Socialist party embraced monetary and fiscal orthodoxy and lived with persistently high unemployment. If anything Mr Eduard Balladur, the Gaullist prime minister, has placed the issue closer to the centre of national politics than his predecessors. In Spain, the Socialist Workers' party has lived with the highest unemployment of any of the larger EU countries, and the number is not expected to peak until next year.

In Germany the unemployment total seems to have peaked at just over 4m, but that figure disguises the fact that many people have dropped out of the labour market and many others are on temporary make-work schemes.

Soares argues the case for greater powers

QUESTIONS ON EUROPE

Mario Soares, 69, Socialist president of Portugal since 1986. Prime minister for three periods between 1976 and 1985, he was the chief architect of Portugal's successful transition from dictatorship to democracy.

Soares: broader and deeper

Do you believe the European parliament should be given greater powers? Yes. We must work towards the creation of e European constitution and true European citizenship. This will help ensure that the people of Europe become eware that they have the ability to influence their own future as Europeans.

Where should the European Union place its greatest economic and social priorities during the next three or four years? The priorities are to advance to economic and monetary union with an effective European Monetary Institute. We should not forget the European social charter. Progress in the economic and political fields must be matched by advances in social affairs.

Is there a danger of a two-speed Europe? This is unacceptable. I see Europe as a broad space for solidarity between people, regions and countries. The existing inequalities, aggravated by an unfavourable economic climate, cannot be used as an pretext for creating a two-speed Europe.

Should the EU give priority to deepening integration among the 12 members or to widening it towards eastern Europe? Both policies are equally necessary. There cannot be true broadening without deepening. The EU should adopt policies aimed at eventually admitting the countries of central and eastern Europe as full members.

Are you worried that German unification and a shift in the EU's centre of gravity to the east and north could harm Portugal's interests? There is an unquestionable possibility of this happening. The EU should take steps to avoid this development.

Will assistance for poorer EU states inevitably have to be cut after the expiry of the 1993-99 package? It is important, necessary and urgent to supply aid to central and eastern Europe. But this should not be done at the price of reducing aid to southern European countries, which are full members of the European Union. Aid should continue for as long as inequalities betwean countries justify it.

Is European monetary union in 1999 still practicable? Europe has lately been gripped by pessimism over the potential of the European project. Some voices describe it as utopian. I do not share this opinion. Only by pressing forward towards full European union, with realism and resolution, will we overcome our difficulties.

Italy has no time to catch breath

By Robert Graham in Rome

For Italy's government and opposition parties, the European elections come at an awkward time. The country is still catching its breath after the March general elections which produced a landslide victory for Mr Silvio Berlusconi, sworn in as prime minister last week at the helm of the right-wing Freedom Alliance.

By June 12, the Berlusconi government will have been less than a month in office – assuming it remains in place after this week's parliamentary vote of confidence. The opposition parties, for their part, fear they will have too little time to reassess their performance and make a fresh impact on the electorate.

The election will be more abont personalities than issues. It seems likely to result in e general endorsement of Mr Berlusconi, although not necessarily of his generally sceptical views about the European Union. According to latest opinion polls, his Forza Italia movement will obtain 25 per cent or more of the vote – almost five percentage points more than in March.

Mr Berlusconi is heading the Forza Italia list in all five of the electoral colleges into which Italy is divided for the European elections. This practice is being followed by all the main political leaders. Of the 1,331 candidates for the 87 seats, 156 are standing in more than one electoral college.

Although his position as prime minister would rule out his attendance at the Strasbourg assembly, Mr Berlusconi hopes his eura of popularity will lend a general glow to Forza Italia. Only five months old, it cannot yet be considered a fully fledged party, and has not even held a constituent congress. Though better funded than any other party, its organisation is confused.

The main purpose of Forza Italia's 13,000 supporters' clubs around the country was to get Mr Berlusconi elected prime minister. Their function in the European elections is less clear.

Mr Berlusconi will be helped by favourable coverage provided by his own Fininvest television network, as well as by the increasingly obsequious position taken by the state-run RAI networks.

Mr Berlusconi's position gives rise to e clear risk of conflict of interest. Fininvest's advertising agency recently sent all parliamentary parties a faxed letter offering advertising spots for the European elections on Fininvest's three channels. In addition to the name of the advertising agency, Publitalita, the paper bearing the message was headed by the name Forza Italia – an oversight which caused a chorus of protest.

Forza Italia's gains are likely to be at the expense of the centre – the various fragmented parts of the Christian Democrats which were dissolved in the run-up to the March elections.

Apart from the score attained by Forza Italia, the most closely-watched development will be the vote obtained by the populist Northern League of Mr Umberto Bossi. The League emerged from the March polls with the largest number of deputies within the Freedom Alliance, thanks to its alliance with Forza Italia.

Aware that it is competing for votes with Forza Italia in the north, the League has chosen to fight these elections alone, fielding its best known local names, including the mayors of major northern cities like Alessandria and Milan.

In contrast to other parties, which are often putting up candidates who failed to win seats in the general elections, the League is trying to show its belief in grass roots democracy. If the League fares badly in the European elections, its position within the Berlusconi government will be weakened. This would in turn make the League a more unreliable ally.

In contrast to the League, Mr Berlusconi's other main partner in government, the neo-fascist MSI/National Alliance, has benefitted from the mantle of respectability offered by Mr Berlusconi. The MSI may thus improve its share of the vote, perhaps at the expense of Forza Italia in southern Italy.

The progressive opposition headed by the Party of the Democratic Left (PDS) will be running essentially unchanged from the general elections. The PDS is in the process of an agonised self-appraisal both of its style and its leadership. This is bound to have a negative impact on its score – unless during the next few weeks the Berlusconi government makes big errors.

NEWS: INTERNATIONAL

Tax report shows wealthiest are recovering from recession

Japan's rich raise earnings

By William Dawkins in Tokyo

A rise last year in the number of Japan's top income tax payers suggests that the rich may be starting to recover from the ravages of recession.

According to the National Tax Administration Agency, 128,000 people paid more than Y10m (£65,700) in tax in 1993, some 3,000 more than in tha previous year, when the total fell for the first time, from 175,000 in 1991.

The figure may not he a completely accurate guide to wealth, given the highly publicised tax evasion cases to have gone through the courts recently, like that of Mr Shin Kanemaru, former political godfather of the Liberal Democratic party. But it does at least indicate that the richest of those wbo do care to declare their revenues earned more in 1993.

Jepan's top taxpayer is Mr Yasuo Takei, cbairman of tbe Takefuji consumer finance group, a classic rags-to-riches entrepreneur, who paid Y4.3bn in personal taxes last year. Much of that was in capital gains from selling shares in his company, to huild np e core shareholding ahead of a listing, Mr Takei explained yesterday. Mr Takei, 64, started his career working in pachinko parlours and selling vegetables in the streets, before founding Takefuji in 1968.

The top 10 include a selection of self-made business people and their relatives, including a race-horse breeder, a computer game producer and the owner of a video rentals company.

Senior executives of Japan's industrial establishment held relatively modest rankings, such as Mr Shoichiro Toyoda, chairman of Toyota, Japan's largest car maker, who came in a mere 92nd, with e Y330m tax hill.

The annual list is a rare guide to the identity of Japan's rich, who are otherwise hard to spot given that only gangsters and the few property tycoons left feel it socially acceptahle to flaunt wealth.

A record 102 MPs are to be found among the Y10m-plus taxpayers, topped hy Mr Yasu Kano, a member of the opposition LDP, with e Y579m tax bill.

Mr Ichiro Ozawa, the government's backroom power broker, put in a surprise appearance as Japan's seventh most taxed politician, hut a long way down the overall national rankings.

He paid Y48.6m in 1993, three times as much as the previous year, much of it on the Y105m royalties on his new book.

Blueprint for Building a New Japan, which sets out Mr Ozawe's argument for reforming the political system and taking a more prominent role in international affairs, has sold 700,000 copies since publication last May. It just goes to sbow, Mr Ozawa commented yesterday, that people have high hopes for reform.

Tokyo banks tire of Euro-mess

Emiko Terazono explains the resistance to European loans

Japanese banks are experiencing a bad case of Europhobia. "We're all saying anything whicb starts with 'Euro' ends np in a mess," says an official of a leading Japanese bank.

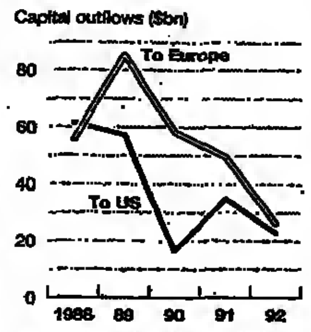
Large European projects sucb as Eurotunnel and Euro Disney have become big disappointments for the Japanese banks, which are alarmed by the continnous refinancing reqnests. Among the largest creditors in the projects, they now perceive that what they had expected to be one-off financing programmes bave turned into commitments to churn out endless amounts of money.

Since the hurst of the economic "huhble" of the late 1980s, Japanese banks have been generally cutting their international operetions and their exposure to overseas investments.

Capital flows from Japan to the US and Europe have changed sharply. According to Sanwa Research Institute, the research arm of the commercial bank, average annual Japanese investment of the past two years to the US has fallen by 48.6 per cent from 1988 and 1989 levels to $29.7bn (£20.3bn), while it has dropped 30.5 per cent to $41.2bn in Europe.

Japan

Capital outflows ($bn)



Source: DKB Int & Ministry of Finance

The sluggish domestic economy and the sharp fall in loan growth have led the banks to turn instead to the fast-growing Asian economies. Capital flows to south-east Asia have grown more than 20 per from the late 1980s to $7.1hn in 1991-92.

The rise in the yen has increased direct investment into Asia by Japanese manufacturers and companies, and banks have increased exposure in the region. Investment in the south-east Asian countries has started to slow during the past year, while growth in China has drawn investments from Japanese manufacturers and banks. "We don't get a feel of what's really going on in Europe as we do witb Hong Kong, China or Singapore," says one banker.

The prolonged haggling over Euro Disney's financial restructuring package, and the tensions over the £700m refinancing efforts of Eurotunnel, which needs new funds because of delays, bave stemmed from the banks' un-Japanese show of resistance.

Last montb they grudgingly agreed to belp Euro Disney reduce its FFr21hn (£2.45hn) debt. But earlier in the year, some of them appeared to have already unloaded their equity holdings because of pessimism over the project.

The lack of enthusiasm in large Euro-projects, say the hanks, is partly due to the absence of traditional and emotional ties to the region. Projects like Eurotunnel and Euro Disney are providing services which are not exportable, and have little commercial relevance outside Europe.

"The banks feel that they do not have the level of control they do in Asia, where Japanese companies wield influence," says Mr Mark Faulkner, banking strategist at brokers SG Warburg in Tokyo. The lack of any political or other business benefits have meant decisions over the European projects have become purely commercial.

Japanese hanks have gradually started to increase lending to US companies, whicb are seeking funds as the economy recovers. The large refinancing programmes for blue chip US companies have started to attract Japanese leoders. For example, the hanks played a leading role in International Business Machine's $10bn loan syndicate last November.

While some hanking officials claim that they are not deliberately avoiding European deals and would still actively participate in leading European financings, the Euro projects have left a bad aftertaste.

Suggestions that central bankers and the government would use pressure to force the refinancing have left many banks especially angry. "If the European governments think it's such an important project, they should use public funds," says a Japanese banking official.

Indonesian bank loan trial begins

A former officiel of an Indonesian state bank went on trial yesterday in a massive loan scandal thet hes provoked a public outcry and student demonstrations qoestiooing tbe role of seoior officials in tbe ease, AP reports from Jakarta.

Mr Maman Soparman, 48, former manager of the Jakarta branch of the state-run Bank Pembanguman Indonesia, was charged with corruption and abuse of power.

The loss to the state from an initial $430m (£287m) loan in 1991 to ethnic Chinese businessman Mr Eddy Tansil by the bank bas swelled to $448.8m, iocluding unpaid interest, tbe Central Jakarta Court was told. Newspapers pnt the amount as higb as $650m.

Mr Mobammed Yamin, state prosecutor, told the Soutb Jakarta District Court the bank official received bribes of 256m rupiahs (£79,000) from Mr Tansil for helping to arrange the credit.

He said Mr Suparman illegally converted a letter of credit suhmitted by Mr Tansil. Prosecutors have said the aim was to permit Mr Tansil to use the loan money withoot in fact buying machinery for which it was intended. If convicted, Mr Suparman would face between 20 years and life in prison.

Mr Tansil, 40, went on trial separately last week. He is charged, amoog other things, with diverting part of the loan for his personal use.

On Saturday, Mr Gani Djemat, who leads Mr Tansil's four-lawyer defence team, told the conrt that the charges shonld be dismissed and that tbe case shonld be treated under civil law, not criminal law. Mr Djemat acknowledged, however, that his client faces difficulties in repaying tbe loan.

Thousands of students demonstrated in several large cities last month, demandiog resignation of two senior officials over the loan case. Some called for interrogation of Presideot Snharto's son, Mr Hutomo Mandalaputra.

Sumatran town lives in thrall to gangsters

Victor Mallet on military-licensed rackets

At first glance, it is hard to see why the plantation managers, traders and factory owners wbo make Medan their home keep confiding to visitors that the place is a throwback to the Wild West, "a hit of a cowboy town".

Busy and polluted, with its uneasy mix of Dutch colonial architecture, Chinese shop houses and new sbopping malls of concrete and glass, the largest city in the Indonesian island of Sumatra looks like a typical product of Asia's industrial revolution.

Tbere is notbing very unusual about the illegal brothels, the fights in bars, or tbe policemen wbo stop cars outside the town, accept Rp500 bribes (about 25 US cents), and wave the cars on without even a pretence of looking at tbe drivers' documents.

What is special about Medan, according to residents, is the size and strength of tbe gangs running tbe town's protection rackets.

Foreigners rarely come into cootact with the gangs because their main targets for extortion are the ethnic Chinese businessmen who control most of tbe town's commerce and industry.

Yet the two largest gangs are believed to have bundreds of members, are unofficially licensed by factions in the army (the dominant force in Indonesian politics), and are implicated in almost every significant event that occurs in Medan.

Recently, for example, gangsters took sides in a violent dispute between memhers of the wealthy Pardede family over the management of the Danau Toba, Medan's largest hotel. People trying to play tennis on the botel courts were startled to see groups of men fighting in the car park; one of the Pardedes, a family of indigenous Bataks, was stabbed in the lobby and the hotel was closed pending resolution of the dispute.

The gangs are also accused by ethnic Chinese husinessmen and trade unionists of acting as *agents provocateurs* during the April workers' demonstrations in support of higher pay. The demonstrations degenerated into anti-Chinese rioting; one Chinese factory owner was killed.

Mr Muchtar Pakpahan, leader of the Indonesian Welfare Labour Union, says he has evidence tbe gang members were paid to cause trouble in Medan to discredit tbe independent trade union movement. Mr Pakpahan, wbo is from Medan, calls the gang members "gangsters like the Mafia in Sicily".

The bread-and-butter business of the gangs is protection – threatening violence against a business or a person and taking money in exchange for not carrying out the threat. "They make tbeir money really by bassling downtown merchants," says one foreign resident of Medan.

It is alleged that officials tolerate, even encourage, the practice, whicb is seen as a form of informal taxation hy the locals of the rich ethnic Chinese minority. "It's a way of getting mooey off the Chinese," says one Indonesian. "It's easier to pay a gang than the military."

The two largest gangs operating in Medan are Ikatan Pemuda Karya (Association of Working Youth) and Pemuda Pancasila (Pancasila Youth) – Pancasila is the official state philosophy of humenism, nationalism and belief in God.

"Pemnda Pancasila is e nationwide organisation," says one Medan resident, "but in northern Sumatra it has long had a history of doing dirty work for the military in return for being given a free hand in illegal activities such as gamhling and prostitution."

The IPK was established in the 1980s as a counterweight to the PP, which the autborities feared was becoming too powerful, and now the IPK is said to have the upper hand.

One of tbe curious features of gang leaders is that many of the locals in Sumatra believe they have magical powers. Both Mr Olo Pangabean, the Betak who heads the IPK, and Mr Azwanni Wan, a senior Acehnese figure in the PP, are regarded as magicians; rumour has it that, when Mr Azwanni Wan was beaten in captivity by a soldier, the soldier went home to find his wife inflicted with identical injuries.

Life can be good for gangsters, even those wbo spent only a couple of years at school. "A gang leader can live like a businessman," says one of Mr Azwanni Wan's associates, pointing to his friend's imposing, 14-room bouse. "He runs protection for more than 20 theatres and shopping centres."

Inside the bouse there are pictures of Mr Azwanni Wan meeting the mayor and wearing a white suit and white shoes, but the man himself is not there. Found guilty of supporting the banned Aceh separatist movement – an accusation douhtless endorsed by rival gangs – be is serving a 13-year jail sentence.

His wife, Ms Rosmaini Rangkuti, a singer, makes some money in the meantime by letting out the upper rooms of the house. She says her husband lives in style in prison and could be free in four years to take full control of his husiness.

Since being in prison, the 45-year-old Mr Azwanni Wan has started saying his Moslem prayers again after a hiatus of two decades, hut his associates say he still regards four things in life as particularly important: money, frieods, magic and – last hut not least – powerful connections.

NEWS: INTERNATIONAL

Syria praises 'keen' US peace efforts

By Mark Nicholson in Damascus

Syria yesterday welcomed "intensified" US efforts to broker progress in peace talks with Israel after Mr Warren Christopher, US secretary of state, delayed his departure from Damascus for two unscheduled rounds of talks with the Syrian leadership, before carrying the results of his discussions to Israel.

Praise for Mr Christopher's "keen efforts" to bridge the gap between the two sides, carried on the state-run Syria radio, was virtually the sole official comment on the progress of his two days of talks in Damascus. US officials would say only that Mr Christopher was "inching" the talks forward.

However, the secrecy, combined with Mr Christopher's evident willingness to tailor the present mini-shuttle, his second in two weeks, to the course of discussions, suggests the secretary of state is exchanging detailed and specific proposals between the two sides, and is determined to achieve tangible progress.

The two unexpected rounds of talks with Mr Farouk al-Sharaa, Syria's foreign minister, were punctuated by trips by Mr Christopher to the US embassy in Damascus, where he is understood to have called Washington. Yesterday's talks followed a four-hour discussion on Sunday night with Mr Hafez al-Assad, the Syrian president.

Mr Christopher is understood to have presented a series of proposals to Mr al-Sharaa and obtained a response before flying on to Israel. He went straight into talks with the Israeli leadership last night and US officials said he had left open the possibility of returning to Damascus tomorrow after today's short, symbolic trip to Jericho.

Though no details of the talks have emerged, Tishreen, the state newspaper, yesterday again indicated an apparent Syrian softening on its previous demand for an "immediate" withdrawal of Israeli forces from the Golan Heights.

In a front-page comment it said Israel must offer a "full withdrawal" from the Heights according to a "speedy timetable". Israel is understood to have offered a three-stage withdrawal over eight years – a timetable Syria has rejected – in exchange for Syrian pledges to establish "full peace".

Al-Hayat, the London-based newspaper, meanwhile quoted anonymous Syrian officials as saying Mr Assad had presented a five-point schedule for progress on the peace talks. This is reported to have begun with Israel annulling its parliamentary resolution annexing the Golan, and offered as a final phase Syrian undertakings to normalise political and economic relations with Israel.

The newspaper said Mr Christopher was also aiming during his present tour to win agreement from both sides to establish a joint Israeli-Syrian military committee to decide on mutually acceptable security measures on the Golan and post-withdrawal borders.

Just hours after Israelis evacuate notorious jail . . .

Gaza prison inmates relive horror of torture

By Julian Ozanne in Gaza City

Palestinian inmates of the notorious Gaza prison, forced by Israeli soldiers to wear dirty canvas hoods over their heads, knew the geography of the jail by names which captured their torment: "The Slaughterhouse", "The Refrigerator", and "The Bus".

Yesterday, hours after Israel quietly evacuated the prison in the middle of the night, several emotional ex-political prisoners swept through the corridors, spitting on freshly painted walls, banging doors, cursing Jews and reliving the painful experiences of their confinement.

One row of murky, tiny cells were known by detainees as "The twenties" after their numbers. Here, in claustrophobic 9ft by 5ft cells, up to six handcuffed prisoners awaiting interrogation had to sleep with their backs on the floor and their legs resting on the walls for several days.

"There were no windows and you never knew what time of the day it was. Even the smell was a horrible form of torture," said Mr Taher Shriteh, a Gaza-based journalist who spent 38 days inside the prison for having a fax machine in his house which belonged to a leader of the extremist Hamas Islamic Resistance Movement.

Upstairs Mr Shriteh showed journalists "the bus", where blindfolded prisoners were seated in long rows on small children's chairs for days waiting to be interrogated by Israeli Shin Bet intelligence agents. "You could hear people screaming and crying as they were beaten behind these walls in the slaughterhouse and everybody was very scared."

At another set of windowless rooms with just a small round ventilation hole in the roof, Mr Shriteh said Israeli officers would inject freezing air during the chilly winter.

Before slipping out of the prison at 3am yesterday Israel whitewashed the building and broke down walls between cells to conceal the cramped living conditions.

The prison was part of a larger complex of buildings which included Israel's military headquarters and functioned as a nerve centre of more than a quarter century of occupation.

Before the 1967 Arab-Israeli war the compound had served as an Egyptian prison and headquarters, and was known as "The Palace". One room still had the rusty chains and trap-door apparatus of an execution chamber.

Exhausted Palestinian soldiers from the Egyptian-based Ain Jalut brigades bedded down in rooms which just 24 hours ago had housed young Israeli soldiers.

Hundreds of Gaza residents thronged outside the prison and pressed up against the gates to ask whether their relatives were among newly arrived Palestinian policemen. Palestinian security officers had difficulty holding back the youths as tempers flared.

One teenager who was being questioned by plain-clothes security staff threatened that a new civil war would erupt if the policemen did not respect the "shabab" – the youths who sustained the seven-year intifada or uprising.

Israel said yesterday it would complete its withdrawal of the Gaza Strip in time for an official hand-over ceremony today, less than two weeks after signing the Palestinian self-rule accord in Cairo.

Correction

Kazakh oil pipeline

Because of a computer transmission error the World Bank was incorrectly given as the source of a report on a proposed Kazakh oil pipeline quoted in an FT article about delays to the Tengiz oil project published on May 13. The source was actually a report by Oxford Analytica.

Pakistan decides to switch to a two-day weekend

Pakistan said yesterday it would switch to a two-day weekend on Friday and Saturday from next month, reversing the practice of observing a one-day break on Friday only, Farhan Bokhari reports from Islamabad.

Mr Khalid Kharal, the information minister, told a press conference that the change would save up to $100m (£66m) a year in power, fuel and transport costs. The government also said it would introduce daylight saving time to be able to increase work hours during the winter.

The change comes as Pakistan is struggling with one of its most difficult power shortages this year.

Regional divide marks Malawi poll

Lack of policy differences has changed the contest, writes Nick Young

Nearly half Malawi's children are stunted by malnutrition, according to the government's own figures. Seven out of ten women cannot read. Nearly half a million families live on farms of less than an acre (less than 0.5ha) and earn less than $50 a year in cash and kind.

This is the grim reality of the "least developed" tag conferred by the UN on a country that ranks among the 15 poorest in the world.

It is a reality that has received little attention on the hustings during Malawi's first multi-party election campaign, because the contenders barely differ on what to do about it.

Yesterday Malawi's parliament approved an interim constitution on the eve of today's parliamentary and presential elections that many analysts believe will bring an end to 30 years of domination by the ailing President Kamuzu Hastings Banda, believed to be in his mid-90s, and his Malawi Congress party.

The interim constitution curtails the sweeping and absolute powers enjoyed by President Banda and was worked out by an all-party panel earlier this year after opposition parties, banned since 1966 in a crack-down on dissent, were legalised.

President Banda's grip on power was evident when the MCP chose him as its presidential candidate, despite his infirmity. But public impatience with his dictatorial ways have showed up in the final days of the campaign, when his rallies have drawn smaller numbers of supporters than those of the opposition.

A small, land-locked country with negligible industry and an overwhelmingly rural population, Malawi has relied since independence in 1964 on rain-fed subsistence agriculture and cash-crops: tobacco, tea and sugar. This will not change in the short term, although diversification into low-volume, high-value crops is being encouraged.

In 1990, Mr Banda's government adopted a "growth through poverty reduction" strategy of allowing smallholders a share in the lucrative export market for Burley tobacco, previously dominated by large estates. Gradually the economy has been liberalised thought the reduction of import barriers, divestment and privatisation of para-statals and the lifting of foreign exchange controls.

All of this, the government believes, will enhance efficiency, boost exports and attract foreign capital. The opposition agrees.

Two years ago, when trade unionist Chakufwa Chihana, leader of the opposition Alliance for Democracy (Aford), was imprisoned for his advocacy of political pluralism and donors imposed an aid embargo to press for "good governance", political change seemed inevitable and Mr Chihana the likeliest man to take the helm.

Now President Banda's MCP has accepted change, albeit grudgingly, and is struggling to graft a new, democratic identity on to its "Four Cornerstones" of Unity, Obedience, Discipline and Loyalty.

One consequence is that Mr Chihana has lost the political initiative and probably, with it, his chances of the presidency. For lack of policy differences has, for many voters, turned the election into a contest between the regions.

Aford is associated with the north, the MCP with the centre, and Mr Bakili Muluzi's United Democratic Front with the south. If people vote along regional lines, Mr Muluzi will win, because the south is the most populous.

Ethnically complex regional distinctions were embedded in the early colonial period when British missionaries developed the best schooling in the north, and consolidated the south's commercial orientation, which itself stemmed from early Arab influence.

Censuses in the Banda era did not acknowledge tribal differences, merely dividing the population into Africans, Asians and a diminishing number of Europeans. Yet the north-south divide has remained marked with persistent jockeying for regional advantage.

When President Banda was invited back to Malawi in 1958 to lead the independence movement, after many years in the US, Britain, and Ghana, he, as a native of the centre, was the compromise candidate between better-known contenders from north and south. Since then he has favoured and developed the centre, building a new capital city there and making its language, Chichewa, an official national language alongside English.

Mr Chihana could probably have transcended the regional divide by endorsing the wage demands of striking private and public sector workers who brought the country to a standstill last September.

But his "trade unionist" label is deceptive. If he was ever drawn to "African socialism", Mr Chihana is no longer. He not only embraces the market but is committed to an austerity period to check the inflationary pressures of devaluation, Aford's political secretary and chief ideologue, Mr Mapopa Chipeta, identifies the future goal as "developing a dynamic, indigenous, capitalist class".

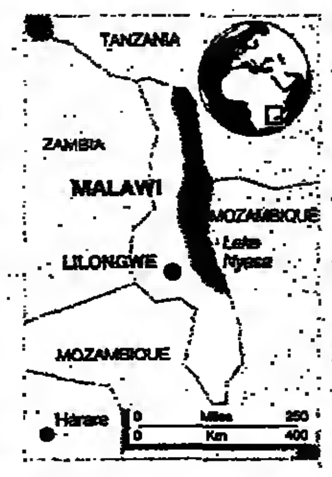
Such talk echoes the first days of African independence, reflecting the extent to which economic power in Malawi has remained in the hands of President Banda and the family of his consort, "Mama" Cecilia Kadzamira, through their ownership of the enormous Press Group of companies, long managed by British and South African expatriates.

That capitalism needs popularising and Africanising is also exactly what Mr Muluzi and other UDF leaders believe. Moreover, several of them, as medium-scale entrepreneurs frustrated by Mr Banda's grip on the economy, can convincingly claim to be prototypes of the new capitalist class.

It is this class which will most clearly benefit from economic liberalisation in Malawi. Mr Muluzi, as representative of it and of the south, seems most likely to take the presidency, particularly if memories of repression obliterate the MCP vote in the centre, and despite his own long association with the MCP in the past.

But any new government will face two big problems. With regional divisions exposed by the campaign after a long period when unity was enforced through repression, it will not be easy to maintain national cohesion. Nor will it be easy to explain to impoverished Malawians that democracy alone is no guarantor of prosperity.

Malawi: thirty years of Banda



Infant mortality (per '000 live births) 143.0
Access to safe water (% of population) 55.0
Child malnutrition (% of children under 5) 60.0
Illiteracy (% of population age 15+) 58.8
Secondary enrollment (% of school age population) 4.0
Source: World Bank


President Kamuzu Banda

Malawi elections: key facts

Eligible voters
3.7m of population of 8.7m
Polling on Tuesday for election of president and for expanded 177-seat parliament
Main parties:
Malawi Congress Party (MCP) led by President Hastings Banda
United Democratic Front (UDF) led by businessman Bakili Muluzi
Alliance For Democracy (AFORD) led by trade unionist Chakufwa Chihana
Malawi Democratic Party (MDP) led by political scientist Kamlepo Kalua
The leaders of the four main parties are standing in the presidential poll
Results expected on Thursday
New head of state and government to be sworn in on May 27


Muluzi: votes in the south

S African strikes pose challenge to ANC

By Mark Suzman in Johannesburg

Although the newly elected South African government has been hoping to focus its attention on development issues, its first real test seems likely to be in the thorny labour relations arena.

Strikes have broken out among provincial government employees and yesterday ambulance workers in Pretoria walked out to protest against planned privatisation of the city's emergency services.

More serious are labour relations in the country's huge mining industry. A strike at Kloof gold mine was resolved only yesterday after the loss of six days of normal underground production. While the problem appears to have been solved for the moment, many analysts feel this is a sign of things to come as unions hope to take advantage of a sympathetic government to wring concessions from the mines. "The workers think it's pay-back time," observes one mining analyst.

All this will pose a serious problem for the ruling African National Congress, which remains in formal alliance with the Congress of South African Trade Unions, the country's largest union federation. Many unions, because of their position at the forefront of the liberation struggle, feel that the new government owes them a debt which is now falling due.

The 280,000-strong National Union of Mineworkers, which has been asserting itself in a wide range of limited actions over the past few months, has signalled its intention to push harder on traditionally intransigent companies now that a black government is running the country.

Right at the top of the NUM's hit list is Kloof's parent company, Gold Fields of South Africa, one of the country's biggest mining conglomerates.

Gold Fields, which has large interests in gold, platinum, copper and zinc, has a history of poor labour relations, and the union is determined to step up pressure on the company.

According to Mr Jerry Majatladi, the NUM spokesman, the primary issue is GFSA's general approach to unions, particularly the right to organise, although Gold Fields claims the problem stems from misconceptions rather real grievances.

The NUM plans a big march on GFSA's head office in Johannesburg over the weekend and will consider further strike action to pursue its goals. If the campaign succeeds, the union intends to target other recalcitrant mining houses, notably Johannesburg Consolidated Industries, the parent of the Western Areas mine where several workers have been killed in political clashes over the past week.

According to Mr Gavin Brown, an industrial relations consultant, further strikes in the rest of the private sector are now increasingly likely, given that many companies delayed wage negotiations until after the election. He also predicts more unrest among civil servants, particularly in the health and education areas.

Despite their longstanding links, tensions between Cosatu and the ANC began to surface shortly before the election, when the federation resisted ANC calls for a moratorium on strikes. They are likely to widen further when Cosatu launches its public sector union later this month, expected to draw in some 150,000 civil servants.

Meanwhile, the demands of office are already forcing many former union leaders to try to rein in workers' demands.

The former Cosatu general secretary, Mr Jay Naidoo, who, as minister without portfolio in the new cabinet, is almost certain to be given responsibility for implementing the ANC's planned reconstruction and development programme, has already publicly committed the ANC to squeezing productivity gains out of the civil service to help fund development.

Other ANC leaders have also urged restraint in wage demands to help keep down inflation, but, so far at least, Cosatu seems unlikely to heed the call.

Saudis in oil supply talks with China

By Tony Walker in Beijing

China and Sandi Arabia are this week consolidating a closer oil trading relationship, as Beijing seeks long-term suppliers to help it overcome a shortfall in its own production.

China last year became a net importer of crude.

Mr Hisham Nazer, the Saudi oil minister now on his first visit to Beijing, will be seeking more extensive co-operation with China in the oil sector, including possible new contracts for shipments of Saudi crude.

Nazer: Discussing refinery

The minister's low-key mission also coincides with reports of Saudi involvement in a \$1.5bn (£1bn) oil refinery, with Chinese and South Korean partners.

The Saudi embassy in Beijing said that Mr Nazer would meet officials from the China National Petrolem Corporation, the China National Chemicals Import and Export Corporation (Sinochem), and the Ministry of Foreign Trade and Economic Co-operation.

China has been looking to the Middle East to satisfy increasing demand for crude and derivatives in order to fuel its booming economy, which grew in 1993 by more than 13 per cent.

A western oil industry representative described China's relationship with the Middle East, and especially with Saudi Arabia, as "absolutely crucial" because of China's growing demand for crude.

At a recent oil industry conference in Beijing, Mr Han Gensheng, vice-president of Sinochem, forecast that imports would reach 50-60m tonnes by 2000 to meet projected demand. Imports would exceed exports this year by a small margin.

China, the world's fifth largest oil producer, registered output of 143.7m tonnes last year, an increase of 2.5 per cent over the previous year.

China is expected this year to match the production of 1993, but is doing so with great difficulty because most of its oilfields are mature, including the Daqing field, which accounts for about 40 per cent of output.

Beijing's need to develop closer trading relations with Gulf states was underlined by the visit to the region last June by the Chinese vice-premier, Mr Li Lanqing.

He signed supply agreements with Saudi Arabia and Oman. This was the first time the Chinese had dealt directly with Gulf states for oil purchases, rather than via intermediaries.

While on his current visit to Beijing, Mr Nazer will also discuss details of a new oil refinery project involving Aramco, the Saudi state oil company, South Korea's Ssangyong, Sinochem, and the municipal government of Qingdao in Shandong province, south-east of Beijing.

The official China Business Weekly reported at the weekend that Aramco would take a 45 per cent share in the 200,000 barrels-a-day refinery, to be located near Qingdao, and Ssangyong 15 per cent, with the remaining 40 per cent shared between Sinochem and the Qingdao municipality.

Telecoms groups eye India

Liberalisation plans leave some tangled lines, writes Stefan Wagstyl

Mr Nagarajan Vittal, chairman of the Indian government's Telecommunications Commission, reads a letter handed to him by a secretary. It is an appeal from a VIP for two telephone lines. "Tell him he can have one. He can't have two," says Mr Vittal, handing back the letter and moving on to the next item.

It is a measure of the shortage of telephone lines in India that the telecommunications department's top civil servant spends time allocating individual connections. "I have to play God here," says Mr Vittal, "in big things and in small."

If Mr Vittal, a strong advocate of pro-market reform, has his way, in a few years the telecommunications commission's chairman will not have to help VIPs secure priority lines. Last week the government approved a new telecommunications policy, designed to provide telephones on demand by means of a huge expansion of the telephone network.

Since the government cannot fund this transformation, it is ending the state monopoly of basic telephone services and inviting private companies, including foreign groups, to invest. Potential investors have welcomed the news but have said thet much will depend on how changes are implemented. If bureaucrats drag their feet, as they have in the past, then Mr Vittal and his successors could still be dispensing VIP connections well into the next century.

With only eight lines per thousand people, India has one of the least developed telephone networks in the world; China has 17 per 1,000 people, Malaysia has 130 and the global average is 100 lines. The country needs telephones, not only to fulfil its aim of increasing international trade and investment but also to provide a basic domestic communications network.

Until last week, the government's aim was to increase the number of lines from 5.8m in early 1992 to 13.3m by the end of the current five-year plan in March 1997. But this would have left about 2.5m people still on the waiting list, so the target has been raised to 10m new lines.

The government is relying on private companies to raise much of the extra Rs230bn (£4.8bn) it needs on top of Rs330bn ear-marked from public funds for 1992-97. Even before last week's announcement, private groups, including foreign companies, submitted 21 plans for telephone networks together worth \$4bn.

'I have to play God here, in big things and in small,' said Mr Nagarajan Vittal, telling a VIP he can have only one of the two telephone lines he had been asking for

Among the foreign companies are industry leaders such as US West, AT&T, and Motorola of the US, Siemens of Germany, and Japan's Fujitsu. Ms Boll Medappa, director of international projects at US West, which plans to invest up to \$1bn in basic services, says: "The new policy will stimulate the rapid expansion of communications networks."

But it will be difficult to meet the governmant's demanding timetable, given the department's past record in accommodating the private sector. With 46 trade unions, representing 470,000 workers, the telecommunications department has long been suspicious of changes which curb its influence.

Since 1992, when value-added services such as cellular telephones and voice mail were liberalised, the department has been entrusted with handling potential competitors from the private sector.

The result has been confusion and delay. Cellular telephones contract awards made in October 1992 have been challenged by unsuccessful bidders in a case now before the Supreme Court.

As Mr Amit Sharma, Motorola's executive director for south Asia, says: "Much depends on the speed and transparency with which the [new] policy is executed. Hopefully, the problems and delays that have occurred in licensing of value-added services wil not be repeated now."

The prospects are not good. The department's trade unions lobbied against the early entry of privete companies and found an ally in Mr Sukh Ram, the telecommunications minister, who argued with Mr Vittal over the admission of private companies.

The result is a compromise; while private companies are being admitted, the department will be responsible for overseeing their entry, acting as both a competitor in providing services and as a regulator. The unions sнccessfully resisted plans for splitting the department into a state-owned corporation and a separate regulatory body.

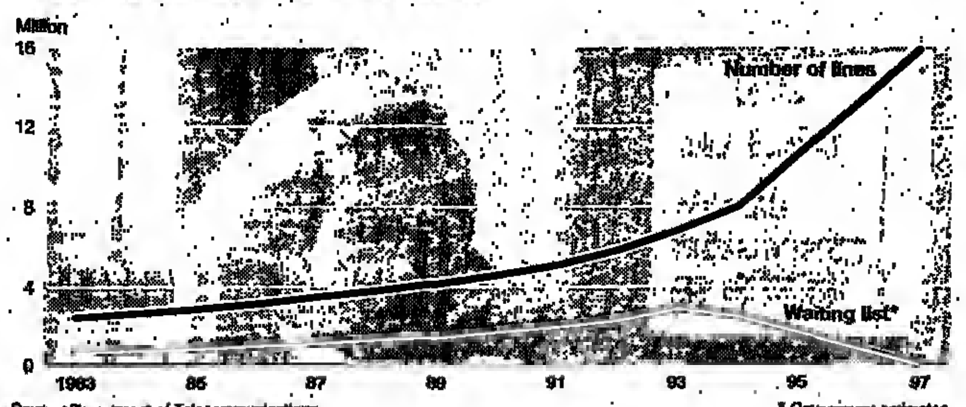
Mr Vittal yesterday disclosed plans to divide the department into service and regulatory divisions, and, as head of the department, he alone would have authority in both areas. Mr Vittal said detailed guidelines would be laid down soon for the operation of private companies.

These will include a requirement that companies operate in both urban and rural areas and that tariffs and arrangements for sharing revenue with the telecommunications department be approved by the government. Mr Vittal said he expected the first private operators to secure licences in two months.

Proposals involving foreign capital will still be required to win separate approval from the govarnment's Foreign Investments Promotion Board, which oversees foreign investment. The permissible level of foreign participation is to be decided "case-by-case" but Mr Vittal said he hoped investments of up to 100 per cent should be permitted.

Even if no new conditions emerge, there are more than enough hurdles for private companies to clear. Until last week it was not certain that they would be permitted to enter the race at all; now at least they are under starter's orders.

Indian telecommunications market



Source: Department of Telecommunications

* Government estimates

NEWS IN BRIEF

Mexican plant for Johnson Matthey

Chemicals group Johnson Matthey is to build a car exhaust catalyst plant in Mexico with a capacity of 1m units a year, writes John Griffiths.

The facility, costing £5m (\$7.5m) and to be located 140 miles north-west of Mexico City, near Querétaro, is due to go on stream at the end of this year, supplying Mexico's rapidly-expanding motor industry.

The catalysts, comprising a thin coating of precious metals on a cylindrical substrate, are the active component of the catalytic converter systems being made mandatory by the Mexican government as part of efforts to reduce severe city air pollution.

Johnson Matthey, which claims to be the world's largest catalyst producer, with over a third of the world market, is also planning to build a similar plant in Malaysia, in a joint venture with HICOM Berhad, a government investment agency.

John Brown in Holland wins German chemical deal

John Brown, part of Trafalgar House of the UK, said its Dutch office had won an important contract to rehabilitate the caprolactam complex at the Leuna chemical works in eastern Germany, writes Andrew Baxter.

Terms were not disclosed for the contract, awarded by Domo Group, the big Belgian carpet and textile manufacturer. Caprolactam is the raw material for nylon fibres.

The contract is one of the largest and most complex undertaken by John Brown Zoetermeer, which will handle engineering, procurement and construction, and will work with Ingenieurbetrieb Anlagenbau Leipzig, the German engineering company.

John Brown Zoetermeer has also won the job of managing contractor for a Fl 100m (\$53m) project to replace the propylene splitter at Shell Nederland Chemie's solvent plant at Pernis in the Netherlands.

Merck agrees Chinese pharmaceutical venture

Merck said it had signed an agreement with Hangzhou East China Pharmaceutical to form a joint venture for manufacturing and marketing certain Merck pharmaceutical products in China. This is to be Merck's first joint venture in China, Reuter reports from New Jersey. The venture, which must be approved by the local authorities in China, will produce tabulated forms of certain Merck products, as approved for the Chinese market. Part of the sales and marketing group of MSD China, a Merck subsidiary, will become part of the joint venture.

The venture will be at Hangzhou, Zhejiang Province, in facilities near the East China site, which have been contributed by East China to the joint venture.

Foster Wheeler wins China power contract

Foster Wheeler Energy Corp said it has been awarded a contract worth about \$185m (£123m) to supply two 300-MW anthracite coal-fired steam generators for the Ezhou power project in Hubei Province, China, Reuter reports from Clinton, New Jersey.

Foster Wheeler Energy said the contract marks its third big power plant project in China.

INTERNATIONAL ECONOMIC INDICATORS: NATIONAL ACCOUNTS

Figures for GDP/GNP are in billions of European currency units (Ecu). The first breakdown is in current prices and the second shows growth rates in the constant price series.

UNITED STATES

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Private Invest. (as a % of GDP)	Govt. Spend. (as a % of GDP)	Net Exports (as a % of GDP)
1985	5,298.1	66.0	17.7	19.1	−2.9
1986	4,339.9	66.8	16.8	19.5	−3.1
1987	3,933.8	67.2	13.5	19.4	−3.2
1988	4,141.1	67.3	16.2	18.7	−2.2
1989	4,786.1	67.1	15.8	16.9	−1.5
1990	4,351.6	67.8	14.8	16.9	−1.3
1991	4,618.6	68.3	12.9	18.2	−0.3
1992	4,860.4	68.6	13.2	18.7	−0.5
1993	5,448.8	68.9	14.0	18.2	−1.0
1st qtr.1993	5,253.0	68.6	14.0	18.2	−0.8
2nd qtr.1993	5,242.7	68.9	13.6	18.3	−1.0
3rd qtr.1993	5,589.5	69.1	13.6	18.2	−1.1
4th qtr.1993	5,730.6	68.8	14.3	17.9	−1.1

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	3.2	4.4	−1.5	6.1	1.2
1985	2.6	3.6	−1.5	5.2	6.6
1987	3.1	2.8	1.8	3.0	10.5
1988	3.9	3.6	3.2	0.6	15.8
1989	2.5	1.9	1.4	2.0	11.9
1990	1.2	1.5	−4.7	3.1	9.2
1991	−0.7	−0.4	−9.5	1.5	6.4
1992	2.6	2.6	6.5	−0.1	6.4
1993	3.0	3.3	11.8	−0.7	3.5
1st qtr.1993	3.2	3.1	18.1	−1.3	3.0
2nd qtr.1993	2.9	3.5	9.0	0.0	4.0
3rd qtr.1993	2.9	3.5	10.0	−0.9	2.2
4th qtr.1993	3.1	3.2	12.9	−0.5	4.8

JAPAN

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1985	1,780.2	58.7	28.0	9.5	3.7
1986	2,033.3	58.4	27.7	9.9	4.3
1987	2,102.2	58.4	28.4	9.4	3.6
1988	2,466.0	57.5	30.4	9.1	2.9
1989	2,625.2	57.3	31.5	6.1	2.1
1990	2,322.0	57.0	32.5	9.0	1.4
1991	2,726.2	56.1	32.3	9.1	2.5
1992	2,852.8	56.6	30.9	8.2	3.3
1993	3,829.0	57.2	30.1	9.5	3.2
1st qtr.1993	3,277.5	57.0	30.1	9.4	3.6
2nd qtr.1993	3,550.6	57.0	30.5	6.5	3.0
3rd qtr.1993	3,924.5	57.2	30.2	9.5	3.2
4th qtr.1993	3,835.2	57.8	29.7	9.6	8.2

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1985	5.1	3.3	3.5	1.7	6.5
1985	2.7	3.4	4.3	4.5	−5.3
1987	4.8	4.2	8.2	0.4	4.6
1988	6.3	5.2	14.2	2.2	10.7
1989	4.8	4.3	9.6	2.0	15.0
1990	4.6	4.0	7.8	1.8	10.6
1991	4.3	2.2	4.5	1.8	5.0
1992	1.4	1.7	−2.3	2.2	2.7
1993	0.1	1.1	−1.8	3.0	−1.4
1st qtr.1993	0.3	1.0	−3.5	1.8	2.5
2nd qtr.1993	0.0	0.8	−1.7	3.7	−1.1
3rd qtr.1993	0.1	0.7	−0.5	3.6	−2.7
4th qtr.1993	−0.2	1.8	−0.6	2.6	−4.1

GERMANY

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1985	825.4	56.4	19.5	19.9	4.2
1986	911.1	65.0	19.5	16.7	5.8
1987	967.5	56.4	19.2	19.9	5.6
1988	1,015.6	54.7	20.0	19.6	5.8
1989	1,087.1	54.4	20.5	18.8	6.4
1990	1,193.7	53.8	21.3	16.1	6.8
1991	1,298.1	53.7	21.8	17.5	7.1
1992	1,383.8	54.0	21.0	17.8	7.1
1993	1,455.3	55.4	19.1	18.0	7.5
1st qtr.1993	1,417.5	55.6	19.0	18.3	7.2
2nd qtr.1993	1,453.4	54.3	19.9	17.7	6.1
3rd qtr.1993	1,480.3	55.6	19.4	17.8	7.1
4th qtr.1993	1,470.5	56.1	16.1	18.2	7.8

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1985	2.2	1.8	−1.3	2.1	7.6
1985	2.3	3.5	3.7	2.5	0.0
1987	1.4	3.4	0.4	1.5	0.8
1988	3.5	2.4	7.8	2.1	5.8
1989	4.2	3.2	6.5	−1.6	12.0
1990	5.7	5.0	9.0	2.2	11.7
1991	4.3	4.4	4.2	0.8	13.6
1992	0.6	1.5	−1.2	9.2	2.7
1993	−2.5	0.0	−10.6	−1.3	−5.1
1st qtr.1993	−3.7	0.1	−14.0	−1.2	−5.9
2nd qtr.1993	−2.5	0.0	−9.8	−2.3	−6.3
3rd qtr.1993	−1.5	1.1	−6.1	−0.5	−5.9
4th qtr.1993	−2.2	−1.1	−12.0	−1.2	−2.2

FRANCE

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1986	746.1	60.2	19.6	19.2	1.0
1987	770.5	60.9	20.2	19.1	0.1
1988	615.2	59.8	21.4	18.7	0.1
1989	877.8	59.4	22.3	18.2	0.1
1990	940.6	59.8	22.5	18.2	0.0
1991	971.2	59.7	21.4	16.6	0.3
1992	1,022.9	59.8	16.7	19.1	1.3
1993	1,070.3	60.7	17.5	16.8	2.2
1st qtr.1993	1,064.0	60.8	18.6	18.5	1.5
2nd qtr.1993	1,072.0	60.5	17.8	13.5	2.1
3rd qtr.1993	1,070.8	61.0	17.1	18.8	2.4
4th qtr.1993	1,074.3	91.1	16.6	19.6	2.7

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	1.9	2.4	2.8	2.3	1.9
1986	2.5	3.9	8.8	1.7	−1.4
1987	2.3	2.9	5.1	2.8	3.1
1988	4.5	3.3	9.8	3.4	8.1
1989	4.3	3.1	6.6	0.5	10.2
1990	2.5	2.7	3.4	2.1	5.4
1991	0.9	1.4	−2.9	2.9	3.8
1992	1.2	1.3	−4.9	3.0	6.7
1993	−0.8	0.7	−11.0	0.5	0.0
1st qtr.1993	−1.5	0.2	−9.1	1.1	−3.0
2nd qtr.1993	−1.1	1.3	−10.6	0.4	−1.2
3rd qtr.1993	−0.8	1.0	−13.2	0.2	1.7
4th qtr.1993	−0.3	0.4	−10.8	0.4	2.2

ITALY

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1986	561.8	62.6	22.5	18.7	−1.8
1987	615.7	62.2	20.9	16.5	0.4
1988	658.4	62.4	21.0	16.9	−0.3
1989	710.5	61.6	21.5	17.1	−0.5
1990	790.8	62.4	21.3	16.9	−0.8
1991	861.1	61.8	21.0	17.7	−0.4
1992	931.6	62.1	20.5	17.9	−0.3
1993	947.0	63.1	19.4	17.7	−0.2
1st qtr.1993					
2nd qtr.1993	830.8	63.0	16.8	17.7	2.5
3rd qtr.1993	857.0	62.5	17.3	17.5	2.7
4th qtr.1993	860.1	63.1	16.4	17.6	2.9

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	2.6	3.0	1.7	3.4	3.2
1986	2.9	6.7	1.4	2.6	2.5
1987	3.1	4.2	4.6	3.4	4.7
1988	4.1	4.2	6.3	2.8	5.4
1989	2.6	3.5	2.3	0.8	6.8
1990	2.1	2.5	3.7	1.2	7.0
1991	1.3	2.3	1.1	1.5	0.8
1992	0.7	1.8	−1.8	1.0	5.3
1993	−0.7	−2.1	−17.5	0.8	10.0
1st qtr.1993	−1.3	−2.5	−20.4	1.0	9.6
2nd qtr.1993	−1.0	−3.1	−16.8	0.9	11.8
3rd qtr.1993	−0.7	−2.2	−17.9	0.7	9.5
4th qtr.1993	0.3	−0.7	−12.4	0.5	9.4

UNITED KINGDOM

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1985	606.6	60.9	17.2	21.1	0.9
1986	573.7	62.8	17.1	21.0	−0.9
1987	600.8	62.7	18.0	20.6	−1.3
1988	709.6	63.5	20.3	19.9	−3.7
1989	766.9	63.4	21.0	19.7	−4.1
1990	770.8	63.1	19.2	20.5	−2.7
1991	919.9	63.9	15.9	21.6	−1.2
1992	610.2	64.1	18.2	22.3	−1.5
1993	807.1	64.6	14.9	21.8	−1.3
1st qtr.1993	765.5	64.6	14.6	22.1	−1.2
2nd qtr.1993	791.1	64.6	15.1	22.0	−1.6
3rd qtr.1993	830.1	64.8	14.5	21.7	−0.9
4th qtr.1993	844.2	64.5	15.5	21.5	−1.5

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	9.8	3.8	3.6	−0.1	6.0
1986	4.8	6.8	2.4	1.6	4.5
1987	4.8	5.3	10.7	1.0	5.8
1988	5.0	7.5	17.3	0.7	0.5
1989	2.2	3.2	3.5	1.4	4.7
1990	0.4	0.6	−7.5	2.5	5.1
1991	−2.2	−2.2	−13.4	2.5	−0.9
1992	−0.5	0.0	1.5	0.7	3.0
1993	1.9	2.5	3.2	−0.5	3.1
1st qtr.1993	1.3	2.0	3.0	−1.1	4.5
2nd qtr.1993	1.8	2.1	3.3	−1.3	2.1
3rd qtr.1993	2.0	2.7	−1.7	0.8	5.0
4th qtr.1993	2.3	3.2	8.3	−0.3	1.0

Seasonally adjusted data used in all cases. Statistics for Germany apply only to western Germany. The US includes investment by government in the government series rather than under investment. Quarterly GDP/GNP totals are annualised. The growth rates are the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The figures in the fifth column of each set of growth rates refer only to exports, rather than to net exports. Data supplied by Datastream and WEFA from national government sources.

NEWS: THE AMERICAS

Military in Chile adamant on general

By David Pilling in Santiago

Chile's democratic government faces renewed embarrassment at the hands of the military today if, as expected, General Rodolfo Stange resumes his post as chief of police in spite of government insistence that he step down.

Gen Stange, who is being investigated fur the alleged cover-up of police involvement in three killings, said he would defy government requests to extend his leave indefinitely.

Under the 1980 constitution handed down by the military regime of General Augusto Pinochet, Chile's president cannot dismiss commanders-in-chief of the armed forces, of whom Gen Stange is one. Government spokesmen bave resorted to oblique references to the "inconvenience" of the situation or to the general's "moral" duty.

At one point, public bickering was reduced to a discussion of the legality of an "indefinite vacatinn".

Behind such semantics lies the conflict between the residual power of the military, which ruled for 17 years, and that of a four-year-old democracy, gradually growing in confidence and intent on regainiog its traditional constitutional powers.

President Eduardo Frei, who took over in March, has pledged to democratise the 1980 constitution. Some commentators argue that Mr Frei may have deliberately provnked confrontation with Gen Stange in order to galvanise pnblic opinion in favnur of constitutional amendments.

Senate flexes its muscles over foreign policy

By Jurek Martin in Washington

President Bill Clinton's conduct of foreign policy has been heavily criticised in academic and establishment circles, but increasingly the US Senate seems ready to act wbere most others merely write in complaint.

Yesterday Senator John Kerry, the Democrat from Massachusetts, took to the opinion pages of the New York Times to demand that the US oust the military junta in Haiti by force – preferably in conjunction with others but still by invasion.

Over the weekend, Senator George Mitchell, the majority leader, and Senator Bob Dole, his Republican counterpart, called for economic sanctions against North Korea for refusing to subject its nuclear facilities to full inspection by the International Atomic Energy Agency.

His blunt comments need to be set against his known willingness to help the administration find a way out of its dilemma, but Mr Dole

With the problems in Bosnia and North Korea, it appears frustration is growing across party lines within the US Senate

Mr Mitchell also said he was in favour of imposing trade penalties on China unless visible improvement in its buman rights record was evident in the two weeks remaining hefore Mr Clinton determines whether to extend most favoured nation trading status.

threatened to embarrass the president to the maximum extent by urging him to renew MFN and admit he had made a mistake last year in linking it to human rights.

Last week, in somewhat contradictory votes, the Senate twice urged the lifting of the arms embargo on Bosnia. Mr Dole's motion urged that the US do so unilaterally while Mr Mitchell's called for the maximum effort to persuade US allies to go along.

Though neither yet has the force of law, both constituted advances on an earlier non-binding "sense of the Senate" resolution.

Senator Kerry is not tha first member of Congress to call for the use of force in Haiti, though he may be the most influential to have done so. It is considered axiomatic that the administration would not launch an invasion without some form of prior consent by Congress.

However, the Republicen party is generally opposed, in spite of the fact that Presidents Reagan and Bush both conducted military ventures in the region, in Grenada and Panama respectively.

With Bosnia and North Korea, however, senatorial frustration appears to be growing across party lines.

Many of those who supported Mr Mitchell's compromise amendment last week may be persuaded to switch sides on the arms embargo if hostilities persist and no progress is made in negotiations.

Lifting the arms embargo is, as Senator Claiborne Pell, chairman of the foreign relations committee, put it, "the easy cost-free solution". One of Mr Dole's central arguments for a unilateral lifting was that no US lives would be put at risk.

The Clinton administration, intent on pushing healthcare reform through Congress, is sensitive to the dangers of additional political controversy. One reason why Mr Clinton selected tha relatively uncontroversial Judge Stephen Breyer for the Supreme Court seems to have been his nervousness about yet another bruising public battle in the Senate.

But this cantion has already invited criticism that the president is unwilling to take a stand on too many matters. This sense could well encourage the Senate to take matters further into its own hands, as it last did in prohibiting the Reagan administration from funding the Nicaraguan contras in 1980s.

Tom Corey (in wheelchair), secretary for Vietnam Veterans of America, arrives in Vietnam with a delegation of war veterans yesterday. They are dne to hand over documents on up to 1,800 Vietnamese troops whose fates are unknown to their families, boping Vietnamese veterans will provide information on missing Americans AP

Caldera pressed to alter course

By Joseph Mann in Caracas

Tbe administration of Venezuela's President Rafael Caldera faces growing pressure to change its economic policies after a steep devaluation, predictions that inflation will surge to 60 per cent or more this year and violent student protests.

The Caldera government began a five-year term in February rejecting the free-market policies uf the previous administration, and offering "a competitive economy with social justice". Thus far, it has produced measures tbat attempt to find a middle ground between market economics and government control of the economy, placing greater stress on the latter.

The two leading opposition parties, Democratic Action and the Christian Democrat party (Copei), have accused the government of incoherence in economic policy, allowing cabinet members to contradict nne another in puhlic and advancing a populist strategy. They have sought a return to market-oriented policies.

Ecouomic and political uncertainty over the last three weeks has sent the bolivar down 12.5 per cent against the dollar at the official exchange rate and by over 22 per cent on the parallel market.

This has caused economists to raise their inflation projections for this year. One prominent Venezuelan economist, Mr Pedro Palma, predicted that inflation could reach 60 per cent or more in 1994, up from 46 per cent last year.

The administration has also faced violent protests in Caracas and other cities after police shot and killed a high-school student during a protest on May 5.

US trials for French abortion pill

The controversial French abortion pill RU 486 will be made available for US clinical trials in the autumn through an unusual arrangement donating all US patent rights to a non-profit population gronp, Reuter reports from Washington.

Roussel-Uclaf of France, a snbsidiary of Germany's Hoechst, has agreed to donate all US patent rights to the drug to the Populatinn Council, a New York-based international non-profit group.

The Population Council is seeking a manufacturer for the drug.

Abortion rights activists hailed the agreement as a tremendous victory, bnt anti-abortion groups were angered. The Americau Life League called RU 486 a "human pesticide".

Poll choice may split Brazil party

By Angus Foster in São Paulo

Mr Orestes Quércia, one of Brazil's most controversial politicians, will run as presidential candidate of the country's largest party, the Brazilian Democratic Movement (PMDB), following his victory in a party vote at the weekend.

Mr Quércia was earlier this month indicted on fraud charges relating to São Paulo state government purchasing policies while be was governor. His candidature has divided the PMDB and threatens the stability of President Itamar Franco's government, based on a sbaky PMDB-backed coalition in Congress.

Mr Quercia wants the PMDB to break with the government because it will be easier for him to campaign for president as an opponent rather than a supporter of the already weak and ineffectual Franco administration.

If the PMDB withdraws support – and a decision is likely in the next few days – the government will face more problems co-ordinating congressional business.

Congress has already almost stopped because of October's general alections. Legislators are spending more time in their home states than in the capital. A long-awaited constitutional revision, due to be completed this month, has so far made almost no progress and would also be further in doubt without PMDB backing.

Some analysts say Mr Quércia's nomination will lead to a serious and perhaps irreparable split in the party, which evolved from groups opposed to the 1964-85 military rule.

Retail sales growth eases tax rise fears

By Peter Norman and Gillian Tett

A survey pointing to moderate retail sales growth in April and news yesterday of a seven-year low in the inflation rate for goods leaving factories suggested that Britain remains on course for a steady recovsry with low inflation in spite of April's tax increases.

The Confederation of British Industry reported overnight that retail sales volumes grew rather more quickly than expected in the year to April maintaining the "relatively modest annual growth in volumes" of the first three months of this year.

According to the Central Statistical Office yesterday, producer output prices – the price of goods leaving factories – rose by 2.2 per cent during the year to April, the lowest such rise since December 1986.

The two reports, at the start of a week packed with statistics, appeared to support the Treasury's belief that the risks of higher inflation are not as great as feared by the Bank of England and that the economy is strong enough to withstand increases in direct and indirect taxation that took effect last month.

That messags was hammered home in Brussels yesterday by Mr Kenneth Clarke, chancellor of the exchequer, when be rejected European Commission forecasts that UK growth will fall next year to 2.8 per cent from 2.5 per cent

"The forecasts are plainly wrong and quite out of line with other peoples' forecasts," Mr Clarke said. "Britain's recovery is well on course. Inflation is staying down and I think we are going to have a good, steady, sustained non-inflationary recovery."

The CBI's monthly distributive trades survey, carried out between April 18 and May 4, showed that most retailers reported higher sales volumes in the year to April.

The improvement, said Mr Nigel Whittaker, chairman of the CBI survey panel, showed that the "high street recovery remains on course". However, he warned that April's volume growth remained below the year-on-year growth rates of late last year while retailers considered sales below the seasonal average.

The picture of an unspectacular recovery with low inflation was supported by the producer price figures. The "underlying" seasonally adjusted output price index, which excludes food, drink, tobacco and petroleum, showed no increase in April.

The index rose in the latest three months at an annualised rate of only 1 per cent. Meanwhile, input prices – the cost of raw materials used by manufacturing – edged up slightly, reflecting higher commodities and imports costs. The index of input prices rose by 0.5 per cent in April from March and fell by 1.5 per cent during the year to April compared to the previous year.

While output prices are generally regarded as a good indicator of future inflation trends, last month's figure may have been slightly subdued because move in the annual budget from March to November meant no increase in excise duties last month.

Blair courts the left as Brown's support fades

By Kevin Brown, Political Correspondent

Support for Mr Gordon Brown, shadow chancellor, was ebbing rapidly among MPs of Britain's opposition Labour party yesterday as Mr Tony Blair, shadow home secretary, put out feelers to the left in his bid to succeed Mr John Smith as leader.

Mr Blair, who met left-wing MPs in his office at the Commons, was believed to be seeking the endorsement of Mr Robin Cook, shadow trade and industry secretary, who is one of two potential left-wing candidates for the leadership.

Mr Cook is picking up support from the small group of hard-left Labour MPs, but his backers among soft-left and Scottish MPs believe he would be well advised to reach an agreement with Mr Blair because he cannot win the leadership.

If support for Mr Brown continues to fade, such a deal would open the way for a straight fight between Mr Blair and Mr John Prescott, the centre-left employment secretary.

Friends of Mr Prescott said Mr Blair would "definitely" face leadership contest, even if all the other candidates withdraw. "The party will demand an election," one said.

Some MPs said the leadership race would be simplified if Mrs Margaret Beckett, the deputy leader, enters the contest. Mrs Beckett is not expected to run, but her candidacy – which would create a deputy leadership vacancy – would open the way for a strong left-right ticket teaming Mr Blair with Mr Cook.

The rapid growth of support for Mr Blair opens the prospect that the contest could be reduced to two candidates shortly after campaigning begins in earnest following the funeral of Mr Smith in Edinburgh on Friday.

Candidates for the leadership are carefully avoiding public campaigning until after the funeral, in deference to the wishes of Mr Smith's family and the shadow cabinet. Mr Blair withdrew from a scheduled speech to a police audience, and Mr Brown cancelled a planned visit to South Wales.

However, Mr David Blunkett, the party chairman, said the party was already suffering from election "hype," in spite of requests for "the dignity that John Smith deserves."

Mr Blunkett said that Labour's ruling national executive committee would probably decide next week to complete the election by the end of the third week in June.

He dismissed a call from Mr John Evans, a member of Labour's organisation committee, for the election to be held at the party conference in September. "For this to go on through August and September is not a happy prospect for the Labour party and ugly for Britain as a whole," he said.

Friends of Mr Brown said he believed that a substantial number of MPs would rally to his support when open campaigning begins next week.

A PC demonstrates a handgun yesterday after the announcement that specially-trained officers will carry weapons Picture: Press Association

London moves towards armed police

By Alan Pike, Social Affairs Correspondent

Armed police will become a more familiar sight in London under measures announced by Mr Michael Howard, home secretary, yesterday.

Crews of armed response vehicles – patrol cars which attend incidents involving firearms – will be allowed to wear sidearms in holsters at all times. Until now, they have drawn their guns from lockers in the cars only when arriving at incidents. When officers are in shirtsleeves, holsters and guns will be clearly visible.

The number of armed response vehicles on 24-hour patrol in London is being increased from five to 12.

Mr Howard said the changes could be introduced in other British cities and it was up to local police chiefs to decide.

He defended the moves as a "measured response" to current problems facing police.

Mr Alun Michael, home affairs spokesman for Labour, welcomed the move.

"I think it is right to be responding and reassuring to police who are at the sharp end and subject to very violent attacks," he said.

He called for work on local partnerships between police and local communities to reduce the atmosphere in which carrying guns was almost acceptable in some areas.

Although critics will see the step as a further move towards the abandonment of Britain's tradition of an unarmed police service Mr Paul Condon, Metropolitan Police commissioner, said he hoped it would "postpone the necessity to routinely arm police officers." The move would restrict the issuing of firearms to highly trained staff.

The Police Federation conference, which opens in Brighton today is expected to release a survey of police and public views on arming officers. It is likely to show growing support among officers for wider availability of firearms.

Federation vice-chairman Mr Fred Broughton welcomed Mr Condon's announcement as "positive and constructive".

He told the BBC: "The problem of policing London particularly is that there is an expectation of violence, an expectation among police officers that they will face life-threatening situations."

Britain in brief

American Express plans credit card

American Express, the US-based financial services company, is test-marketing a credit card in the UK aimed at individuals who do not have an Amex charge card but who fit the cardholder profile.

The move comes at a time of increasing competition in the credit card market with several providers launching products which undercut traditional bank providers on both interest rates and annual charges.

American Express has been test-marketing a similar credit card product in the US and Canada for several months and is likely to launch it in North America first.

"Our initial research tells us there are people out there who like the American Express brand but who definitely want revolving credit," the company said.

American Express is considering a range of annual fees and interest charges which will be lower than those of bank-sponsored credit cards but higher than those of the most competitive products on the market.

Car dealers increase profits

The UK's top 200 car dealer groups almost doubled their profits last year as sales began recovering from their steepest recession since World War II.

However, the improvement was the result more of tough cost-cutting measures than increases in sales volume, according an analysis of the sector's performance by motor trade monitoring group Sewells International and trade newspaper Motor Trader.

The analysis shows that the top 200 groups, which between them account for around one-third of new car sales in the UK, collectively earned pre-tax profits of £294m, a 75 per cent increase over 1992. Total value of sales, at £17bn, was 21 per cent higher than the £14bn a year earlier.

The figures were achieved against an 11.6 per cent rise in the UK new car market last year, to 1.78m – well below the 2.3m achieved in the record year of 1989.

Hitachi to open UK design arm

Hitachi, the Japanese electronics company, is establishing a wholly-owned semiconductor design company in the UK as part of a plan to improve engineering services to European customers.

The value of the investment in the division, which will be called Hitachi Micro Systems Europe, has not been released but the number of engineers in Hitachi's existing European microsystems design division will roughly double from around 30 at present.

Mr Jim Duckworth, executive general manager of the electronic components group of Hitachi Europe said: "Customers expect ever increasing levels of high quality local engineering design and development services to support their own design activities."

Mr Hajime Yasuda, managing director-designate of the new company, said it would offer a comprehensive range of design skills for all aspects of hardware and software design.

London to see more office jobs

Central London is likely to see a growth in total office employment of between 50,000 and 65,000 jobs by the year 2000, according to a report published yesterday.

The growth in office employment could generate demand for nearly 10m sq ft of extra office space by the end of the century, according to chartered surveyors St Quintin.

However, the growth in employment is likely to be less important in generating demand for offices than the need of City occupiers to change and upgrade their accommodation, the report says.

A quarter of City tenants are housed in unrefurbished pre-1970s buildings.

The chance of another explosion in the financial and business services sectors, which grew sharply in the mid-1980s, is "extremely unlikely" says the report.

Second term for regulator

Prof Stephen Littlechild, electricity industry regulator, yesterday received a mandate to continue in office until the end of the century when he was re-appointed for a second five year term of office.

The announcement by the trade and industry department yesterday confirmed industry expectations but comes after speculation that he may have lost the confidence of the government because of controversial stands on issues including coal and electricity generation.

The re-appointment to August 1999 will enable him to oversee the introduction of a system which many people believe will be as close to full deregulation as is possible.

Tate and Lyle demonstrations

Demonstrations are planned today outside 15 plants of Tate and Lyle in Britain, the United States and Canada in support of 750 workers locked out for 11 months from its A E Staley starch and sweetener subsidiary in Decatur, Illinois.

"These actions will send a message that workers on both sides of the Atlantic are united against Tate and Lyle's conduct in Decatur", said Mr Alan Gordon, national organiser for the British union GMB yesterday.

Cable boost for phone services

By Andrew Adonis

Rapid growth in the market for premium-rate telephone services was predicted yesterday by Icstis, Britain's telephone information services watchdog.

Icstis said it expected cable companies to join the market soon, offering premium-rate services over their telephone and television networks in urban areas.

Baroness Dean, Icstis chairman, said: "There will need to be a level playing field for all companies operating across all networks."

Icstis wants the cable industry to sign up to its code of practice regulating premium-rate services, to which BT and Mercury already subscribe.

Mr Richard Woollam, director of the Cable Television Association, said he was "confident" it would do so.

The premium-rate industry had a turnover of £250m last year. There are more than 350 service providers; nearly 20,000 services are in operation with an estimated 6m calls made each week.

The entry of the cable companies into the business is likely to boost the number of services, and increase price competition between operators. At present, calls cost a standard 39p a minute cheap rate and 49p a minute at other times, with only one premium-rate number – Mercury's 0881 – charging a lower rate.

However, higher tariff-bands are also in prospect for "quality" business and information services, subject to Icstis approval. The group said it was "unlikely" to agree to higher tariffs for services with appeal to children and a mass audience.

The Icstis annual report shows high usage of premium-rate services by children. A survey of 1,000 children aged between seven and 19 found that 21 per cent had used a service in the previous three months, with usage highest among 11 and 13-year-olds (34 per cent).

AA Insurance to alter working patterns

By Richard Lapper

AA Insurance Services, one of Britain's biggest motor and home insurance retailers, is to switch many of its 5,100 staff to flexible labour contracts in response to the growth of telephone insurance companies like Direct Line.

This will mean further part-time working for the mainly female labour force as the company seeks to reduce costs and increase the efficiency and flexibility of its network of 250 shops.

Details will come next month when the company, which is talking to unions about the changes, announces an overhaul of its operations.

Like other chains of insurance shops, AA has lost business over the last three years to Direct Line and other "direct writers", insurers which sell by telephone directly to the public, bypassing the industry's traditional middlemen.

Recent price competition in motor insurance has also put extra pressure on margins. Shops which typically obtain a commission from insurers of between 10 and 15 per cent on business sold have seen their income squeezed by recent falls in premium rates.

"There is a fundamental change in the amount of margin available as a reward for distributing insurance products," said Mr Mark Wood, who took over as managing director of AA Insurance Services earlier this year.

The AA expects the amount of commissions on motor insurance available to the country's brokers and intermediaries to fall from £700m in 1992 to £435m in 1995.

Mr Wood said the competitive pressures faced by chains of insurance shops from the "direct writers" were similar to those faced by supermarkets from discount warehouses.

The number of AA Insurance part-time staff has increased from 420 in 1988 to more than 1,400 and seems likely to rise further as greater flexibility is introduced to shop opening hours, with evening and Saturday afternoon opening being introduced.

"Frequently insurance brokers tend to say let's open our offices when everyone is at work. We need to turn that on its head," said Mr Wood. "The industry is very confused about the retailing proposition. There is a traditional view of our being a service like an accountant or a solicitor," added Mr Wood.

The AA recognised that more consumers were prepared to buy insurance over the telephone, but Mr Wood insisted its network of shops made the group ideally placed to follow-up on claims which customers frequently preferred on a face-to-face basis.

London irritated by Irish PM's upbeat remarks

By David Owen

Hopes of a breakthrough in the search for peace in Northern Ireland were set back yesterday as it emerged that the upbeat tone of recent remarks by Mr Albert Reynolds had irritated London.

The Irish prime minister's comment that written questions from Sinn Féin, the IRA's political wing, about last December's UK-Irish declaration were "answerable" was seen as unhelpful by some in the UK government because it raised expectations the deadlock might soon be broken.

Mr Reynolds's comments came after unscheduled talks in the US with President Bill Clinton. The Irish prime minister said he hoped London would give the most positive response it could.

But Downing Street yesterday moved towards clarifying one of the questions raised by Sinn Féin by hinting strongly that acceptance of the joint declaration was not a precondition for involvement in political talks.

Downing Street said the "primordial" requirement for Sinn Féin to enter talks was a permanent end to the IRA's armed campaign. It said this renunciation of violence was "at the heart" of the declaration.

London intends to publish Sinn Féin's questions, which were forwarded by Dublin, at the same time as its comments, probably tomorrow

Mr Gerry Adams, the Sinn Féin president, has sketched out the areas covered by the questions without giving precise details.

Government sources at Westminster were yesterday playing down expectations of what might emerge from London's comments.

They said many of the questions raised matters that would only be resolved after further talks between Ulster's constitutional parties.

At least one of them constituted a "trick question", since it appeared to refer to a unionist veto that the government has consistently maintained does not exist.

As unionists warned of a likely upsurge in loyalist violence if the government's response to Sinn Féin was too explicit, police launched a drive against suspected loyalist terrorists in Belfast.

Downing Street insisted last night that the government was not "in the business of clarification" and had only "helped the Downing Street Declaration to explain itself".

It said the exercise of commenting on the Sinn Féin document was "no different in kind" from previous speeches.

Searching for equity in Ulster's workplaces

Michael Cassell on the Fair Employment Commission

Mr Bob Cooper may not be amused at the prospect of his organisation being taken before Northern Ireland's fair employment tribunal to answer an employee's allegations of religious bias. The organisation in question is, after all, the Fair Employment Commission set up to help eradicate decades of damaging workplace discrimination.

But Mr Cooper, the FEC's chairman, can perhaps find some consolation from knowing that the tough set of anti-discriminatory laws he is in business to enforce in Ulster are increasingly understood and that workers will not hesitate to invoke them if they believe they have a grievance.

It is nearly five years since the government revamped legislation to try and tackle head-on the unlawful discrimination which for decades has scarred many aspects of life in the province. With problems over the allocation of housing and electoral abuses largely overcome, new measures were felt necessary to wipe out the religious discrimination still rampant in the workplace.

The answer was the Fair Employment Act 1989, a tough package placing fresh responsibilities on employers to monitor the religious composition of staff and to enact equal opportunities at work. The Act cites more than 20 criminal offences and lays down punitive economic sanctions against defaulting employers. The compensation ceiling for tribunal awards to individuals has just been raised to £35,000 and already a pay-out close to the maximum has been made.

Next year, the legislation is to be reviewed and organisations across the province are assessing its success so far and compiling recommendations for changes. The general, though not universally accepted, view is that the Act has made a useful start in combatting discrimination in the office and on the shop floor but that there remains a very long way to go.

For decades, Catholics were effectively banned from whole areas of public sector and commercial life and knew it was a waste of time even applying for jobs they were qualified to do.

Most grades of the civil service were devoid of Catholics – now they hold three of the province's 10 permanent secretary postings – and there were few in the professions or in skilled industrial jobs. With unsuitable schooling and poor qualifications, they were trapped in a vicious circle.

Catholics, who make up nearly 40 per cent of the available workforce, are still under-represented right across the economic community – remaining "blackspots" include senior civil service grades – but the gap is slowly narrowing.

Discrimination nevertheless remains well in evidence, with a spate of tribunal findings suggesting that Ulster's district councils and health and education boards among the worst and most persistent offenders. Many private sector companies, overwhelmingly manned by workers from one or other side of the religious divide, have so far failed to make significant changes in their employment profiles.

The picture is not just one of stubborn protestant bosses. Among the biggest employers, some Catholic-dominated companies are apparently proving slower than businesses with predominantly Protestant workforces in redressing the balance.

It is accepted, however, that effecting change can be impeded by the religious make-up of the local labour pool and by declining workforces in the wake of recession.

The biggest imbalance though remains among the unemployed, with Catholics still more than twice as likely to be out of a job than protestants. The situation has barely improved in 20 years with many employers avoiding an under-skilled and inexperienced labour force rather than consciously discriminating on religious grounds.

As a review of the Act approaches, Mr Cooper is not complacent: "So much more remains to be done but if you look at where where we were coming from we have already moved an enormous distance".

Ulster politicians, predictably, are divided. While the mainly-catholic Social Democratic and Labour Party believes that the 1989 legislation is beginning to have a beneficial impact on employment imbalances, some Ulster Unionists complain it is now discriminating unfairly against protestants.

There will, even so, be pressure on the government to make changes.

The CBI believes the tribunal process has become too lengthy, overly legalistic and costly, encouraging some employers to opt for a quick, informal settlement irrespective of the strength of the case.

Employers also believe too many aggrieved employees are using the law as an act of first, rather than last, resort.

Bob Cooper, chairman of the Fair Employment Commission, set up to correct years of workplace discrimination Picture: Pacemaker Press

Factoring's unsung role for exporters

An overdraft is not the only option for companies trading overseas, says Mark Runiewicz

Eddie George, governor of the Bank of England, gave factoring a generous "plug" at a dinner in London last week. Yet for all the publicity which this form of finance now receives, a surprising number of businesses, notably exporters, remain ignorant of its charms.

Around 85 per cent of UK exports are still financed by the traditional bank overdraft, despite the advantages of using factoring companies – which buy debts in return for an immediate cash payment, take over debtor records and provide a collection service for clients.

Overdrafts, indeed, are seldom used effectively to finance overseas trade. Most banks seek security for loans, often using a company's assets – including its trade debts – to support any overdraft. Secured by a floating charge, they will usually lend up to 60 per cent of the value of e current UK receivable, but they still will not lend anything against the value of *foreign* trade debts.

This leads to the absurd situation where a company might be given no credit on the back of an export sale to, say, a leading multinational conglomerate – but would be advanced up to 60 per cent of the value of e sale to a small corner shop.

Some of the clearing banks admittedly have export finance schemes using credit insurance on the overseas buyers as security. Unfortunately, the number of these schemes has fallen from 14 to five over the last two years, although National Westminster Bank has recently re-entered this market.

As many factoring companies are owned by large financial institutions, it is perhaps surprising that the wide variety of services provided by factors are not adopted by the clearing banks for their export finance schemes.

There are, of course, deeply rooted reasons why some exporters are reluctant to take advantage of factoring companies. Undoubtedly the old image of factors as "lenders of last resort" haunts factoring companies. Suppliers are sometimes concerned that overseas buyers might consider the exporter to be in financial difficulties if export debts are factored. It is an attitude which needs to be revised.

The factors now provide highly competitive financing rates linked with fast information reporting systems and also keep exporters informed of payments received and outstanding debtor values.

Factoring is also considered expensive by exporters, but they seldom take the various savings into account. For instance, there is less need to send out invoice reminders to customers and there is less requirement for internal credit control and bookkeeping. There are no legal costs in collecting bad debts.

Experience shows that

Companies using factors obtain payment faster than when traditional methods are used

companies using factors obtain payment faster than when traditional payment methods are used, because debts can be paid to an associate factor in the buyer's country.

A company with a turnover of £2m can expect to save about £25,000 in costs or 1.25 per cent of turnover in a year. Factors can finance a company's total debts or sometimes selected invoices.

Factoring, though, is not suitable for all companies and exporters must assess their specific financing requirements.

Take Company A, which exports 90 per cent of its £2m turnover to multinational companies in overseas markets. The company receives payments on average within 60 days from the date of despatch, for which it requires working capital of £300,000.

The company had an overdraft facility of £50,000 and funded the balance of its working capital need from reserves, causing pressure on its liquidity. The company's bank would not increase the overdraft because of the large proportion of overseas debts.

Company A had two options: reduce export turnover or find an alternative source of finance. By turning to a factor the company was granted a facility covering 85 per cent of its debtor book with a limit of £240,000.

The factor provided finance and a debt collection service in the buyer's country – an altogether more efficient way of receiving and collecting payment. Overseas debtor days were reduced from 60 to 45, reducing interest charges and increasing working capital.

The interest rates charged by the bank and the factor were the same although the factoring costs were 1.5 per cent of turnover. This cost was offset not only by the reduction in the interest bill but also by greater use of working capital.

Company B, which exports 60 per cent of its £5m turnover and sells mainly to the Middle and Far East markets, required additional funding to complete e series of contracts.

The company sold mainly on letter of credit terms with a credit period of 60 days and needed its bankers to confirm both the letters of credit and provide funding. Although the company had e small overdraft facility, the bank was happy to extend facilities based on the large value of work in progress and the company's assets.

The company had considered factoring but found it was not appropriate because of the large volume of letters of credit received and the small volume of open account business.

The lesson is that exporters should seek the most appropriate financing arrangements for trading overseas; and an overdraft should not be considered the only solution.

The author is trade finance consultant at the Bank Relationship Consultancy

Some marriages may be made in heaven, but the relationship between private investors and entrepreneurs is almost invariably stormy.

Sarah Anderson can vouch for this, having seen it from both sides of the business. Founder of Mayday Staff Agency Services, an employment bureau for the catering industry in which outside investors took a stake, she is now lead investor in a start-up business, Teddies Nurseries.

Seeing it from both sides

Richard Gourlay continues his series on business angels with a visit to a nursery

Anderson is convinced the nurturing of business relationships is crucial if private investors and the entrepreneurs they back are to stand a chance of succeeding.

"When a business is running well, the entrepreneur thinks they are putting everything in and the investors are vultures," says Anderson. "When it goes badly it is the other way around, with resentment that they are not pulling their weight."

It was the arrival of her children that launched Anderson's career as a business angel and has inspired a number of her subsequent investments. "I was bored with running Mayday full-time, got married and pregnant," she says. "In 1990 I started going to meetings of potential investors at LINC" – the Local Investment Networking Company run by a group of government-backed Enterprise Agencies.

Teddies Nurseries was one of the companies that gave a presentation at LINC'e regular investor seminars. Its entrepreneurs – Nicholas Botterill and Amanda Ramage – wanted to open a chain of high-quality, branded day-care centres. The first flagship operation would be launched in a residential area. The rest would be set up near large office blocks to service what they hoped would be a boom in corporate spending on child care for staff.

"I could recognise a good plan because I had been running a business," says Anderson. "They were very young, bright and one had been a management consultant with Stoy Hayward. I liked the people and the product and it was a start-up which I wanted."

Starting with 20 per cent of the equity, the entrepreneurs were encouraged by a ratchet agreement that would have given them control of the company if they performed to plan. However, Botterill and Ramage quickly ran into the quicksand of London's planning laws. It took longer than expected to find buildings with the right planning consents. The first Teddies in Fulham – now full and thriving – was late in opening, the second in Twickenham only opened in October, 10 months late.

"Each centre makes more money than we ever projected but the ratchet was flawed because it was based on a time scale which when extended made majority ownership impossible to achieve over the five-year period," says Ramage.

Tony Andrews

Child's play: Sarah Anderson at Teddies Nursery with a Toodle-loo.

Whatever the reason, the missed targets and the argument over whether the ratchet should be changed, soured relations. The business ate cash and Teddies needed re-stuffing with money. "The ratchet was clearly not going to be available to them so they were not incentivised," says Anderson.

"I always felt the investment was something that might be lost," she says. "I was far more angry about the relationships that were going wrong and that it was no longer fun."

Anderson decided refinancing would not be pouring good money after bad. The business, now successfully operating two full nurseries, has recently broken even, and the concept is now proven. But Ramage is trying to find new investors to buy Anderson out.

"If I had my time over again I would negotiate the contract differently but I am perfectly happy with the way we found the investors and the people we went in with," says Ramage. Both sides made mistakes in negotiating the original contracts, she says.

This tension is familiar territory for Anderson. At Mayday she had to put up with outside shareholders. For ten years she had been "happily working" for Compass, the catering company, ending up as a personnel and training manager. Asked to find ways to make money from the personnel department, she suggested an internal staff agency to replace outside contractors through which Compass was putting £500,000 of business e year.

Six weeks after Anderson had set up the agency as a subsidiary, she persuaded the chief executive she was doing him a favour by taking this "lousy business" off his hands. For the princely sum of £7,600 to buy the goodwill she was running her first business.

Though she did not need the finance, Anderson's father came on the board and the venture capital company he was then working for took a 10 per cent stake.

"My view of private investors was very antagonistic," says Anderson. "I felt I did all the work and that was why I had a successful company. I look at it slightly differently now."

While Mayday has been a success – with turnover of £2m and 21 permanent staff – and Teddies is coming good, Anderson has had one "unequivocally disastrous investment". Attempting to repeat Mayday's London success in Cambridge and Bristol, Anderson backed two entrepreneurs to set up and run e subsidiary. Their sales forecasts proved unrealistic and £35,000 later the business failed, Anderson says.

"I learned you need to be brave enough to pull the plug early," Anderson says. "We should have pulled the plug after six months. An individual'e capability does not change very dramatically over time."

Anderson has also raised commitments for money to set up childrens' activity centres. Again London's planning laws tripped her up and she is now leading her backers into a similar project in Guildford she found through LINC.

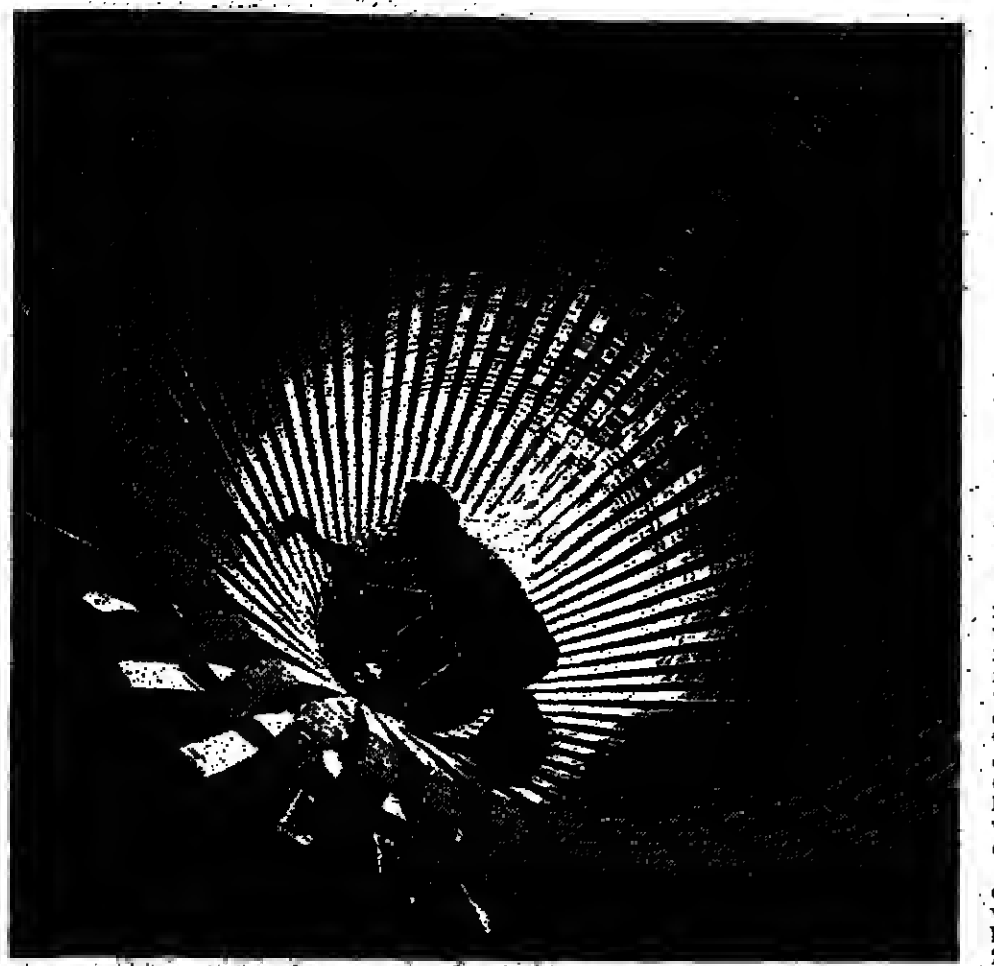
And coming full circle Anderson has also started investing in herself again. With a neighbour she is launching into the manufacture of e folding childrens' lavatory seat called a Toodle-loo.

A start-up, a single product, an uncertain route to market: It has everything that makes bankers and institutional venture capital suppliers run e mile, but all the features that private investors like Anderson embrace.

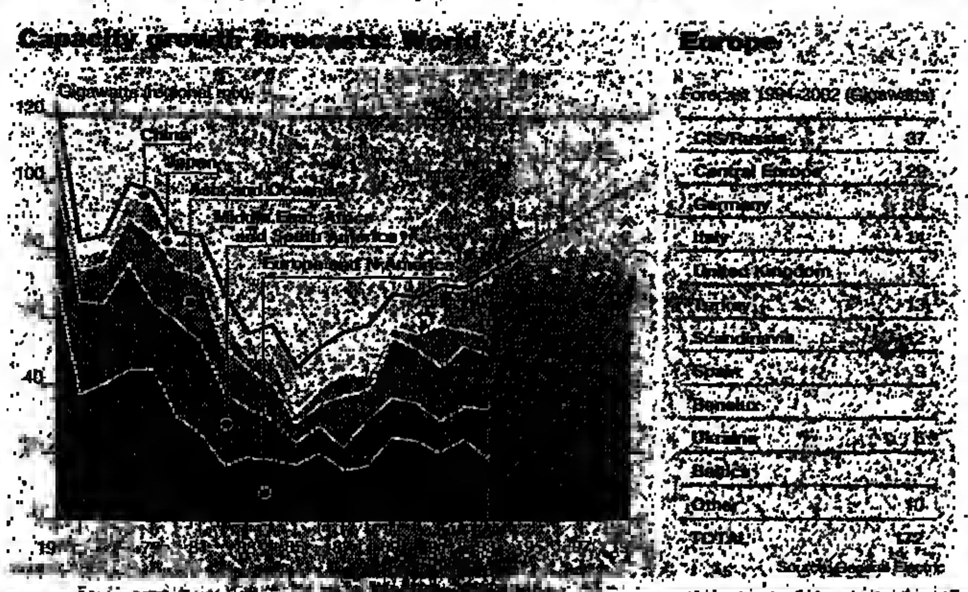
FINANCIAL TIMES SURVEY

POWER GENERATION EQUIPMENT

Tuesday May 17 1994



A technician at work inside a generator made by Parsons Turbines Generators



Embattled western suppliers risk more restructuring if they fail to win the new business generated by Asia's expanding economies, writes **Andrew Baxter**

Centre of gravity moves to the east

As growth in demand in the world market for electricity generating equipment shifts inexorably eastwards, western suppliers are warily eyeing each others' efforts to benefit from growth opportunities.

Declining demand in western markets has left the industry with surplus capacity. In the new markets of Asia, they are faced with increasing demands to share contracts and technology with local partners. The top suppliers, whose wares are on show at this week's Power-Gen '94 exhibition in Cologne, have yet to demonstrate whether they can meet this challenge.

A review just of April's events in the industry shows where the big new deals are being struck. On the same day, Zurich-based Asea Brown Boveri announced a contract worth about $1bn to build a turnkey 1,300MW gas-fired combined cycle plant in Malaysia, while Siemens said its KWU power generation business had clinched an order worth nearly DM1bn to equip a 2,364MW combined cycle station in Taiwan.

Also in April, GE of the US announced a $170m order to supply a turnkey power plant for a 440MW independent power project in Malaysia, one of the first such stations planned by the south-east Asian country. And Westinghouse Electric, also of the US, picked up an order worth more than $100m from Korea Electric Power for the supply of turbines, generators and related equipment.

Much of the demand is being met through joint ventures and similar arrangements. Two deals are particularly striking. ABB is forming a majority-owned joint venture in Vietnam with CTBT, a local transformer manufacturer. The European company said the venture was the biggest in the electrotechnical industry to be undertaken in Vietnam by a foreign company.

In the UK, meanwhile, Babcock International has announced a partnership agreement with Wuhan Boiler Works, China's fourth biggest boiler maker, which is designed to help Babcock expand its presence in the Asian market.

Significantly, the first order following the agreement will see Babcock supplying design expertise while Wuhan will be doing the manufacturing. The UK company is recognising that to win orders in Asia, western suppliers cannot expect to produce everything themselves.

As ABB's figures show, *(see chart)*, there is enormous variation between different regions, which explains why suppliers are having to turn themselves into global players. And the upward line in the forecast is due mainly to growth in China and Asian countries.

"Suppliers have historically been in markets that last year were shrinking – Europe, the US and Japan," says Mr Göran Lundberg, an ABB executive vice-president and head of its power plants business. "Global growth is coming out of the internal growth of China. So everyone is tense and nervous, as competition is hardening." Mr Lundberg believes that the power equipment industry is facing some "quite dramatic" changes, as it continues over the next five to 10 years to become more global. The ambitions of equipment suppliers in China and Korea will make it important for western suppliers to recognise the need for new alliances and combinations, he says.

Also, he says, large equipment suppliers will have to continue investing heavily to ensure they have a broad range of products for customers with widely differing financial and technical priorities, and will have to raise ing productivity in their traditional manufacturing plants. Suppliers should only manufacture in high-cost countries when it is competitive to do so, he says.

ABB's assessment of future growth for the industry broadly coincides with those of its rivals. Westinghouse, for example, says that the global market for new capacity additions is about 60,000MW a year, and says demand is expected to grow to about 100,000MW annually in the next 10 years.

Even so, the total market will only then have recovered to levels reached in the late 1970s, and its geographic and competitive profile will have been transformed. Mr Lundberg believes, therefore, that the industry will see further restructuring, and that small and medium-sized European players will find it difficult to cope with the challenges ahead. "They may need to get into a larger structure so they can draw on the resources of the larger company with its volume," he says.

In spite of the heavy restructuring that has already taken place in the industry, Mr Lundberg says it has not gone as far as in other "oligopolic" industries, through exchanges of products, for example.

Meanwhile, although Asia is clearly at centre stage, there is still activity in the wings. In spite of the gloom of recession in many European countries, the power equipment market there looks to be very promising, says Mr Ronald Pressman, chief executive of GE Power Systems – Europe.

He foresees annual growth in the installed power capacity base of 2 per cent, which may not sound too exciting, but equates to an overall 172,000MW growth in the market between 1994 and 2002 (including Russia and Central Europe). There are a variety of dynamics driving the market, he says, including economics and the environment.

"There is an awful lot of the installed base that is old, relatively inefficient, and is not burning the cleanest of fuels," he says. No country can afford to let its industrial sector pay more than the world rate for power, so this creates a powerful argument for installing replacement equipment.

Privatisation and the development of independent power projects is seen by Mr Pressman as the third big issue in Europe.

The UK, where both GE and its business associates have supplied independent power producers, still provides the best model, but Mr Pressman is not alone among power equipment executives in predicting the continued spread of privatisation on the continent.

Signs of recovery in Germany, which could have a knock-on effect across the continent, also point to increased demand for power. But Mr Pressman is also optimistic about developments in central Europe and particularly Hungary, the Czech Republic and Poland which, he says, are "leading the pack".

Last month, GE scored a notable coup by clinching a 10-year co-operation agreement with the much-wooed Skoda of the Czech Republic. This was the US company's first power equipment-related joint venture in eastern Europe and was negotiated under the nose of Siemens, which has been talking intermittently to Skoda for more than two years.

Russia has also received considerable attention from suppliers in recent months, as much in words as in deeds.

Mr Percy Barnevik, ABB's president, was one of the first western businessmen to criticise the low level of funds being made available to the countries of the former Soviet Union to upgrade their power stations and bring the more modern nuclear stations up to western safety standards – and close the rest.

Earlier this year, Mr Barnevik said the west had missed an opportunity to help Russia

● Continued on next page

IN THIS SURVEY

China's huge electrification plans will ensure opportunities for many years, writes **Frank Gray**

Hong Kong groups lead the charge

China is currently astride the world's most ambitious power development programme, having set itself a target of 300,000MW of installed capacity by the turn of the century.

The programme, according to China's Ministry of Electric Power, calls for a further 12,000MW of capacity to be added this year, boosting levels from the end-1993 figure of 176,000MW. The pace of new power additions will be accelerated on a year-by year basis and will reach a remarkable rate of 20,000MW per year in new power plant additions by 1996 at least.

The programme is breathtaking by global standards and exceeds by a wide margin expansion programmes being planned by other developing nations. Even if the target is not achieved, the gains still will be substantial enough to provide exceptional business opportunities for western equipment suppliers, consultants, banks and companies seeking partnerships in the power sector.

Not surprisingly, the front runners in Chinese joint ventures are such Hong Kong-based groups as the private sector utility China Light & Power (CLP); Gordon Wn's CEPA, a division of Hopewell Holdings; New World Development, Hutchison Whampoa and Cheung Kong Holdings.

An increasing number of outside groups is joining the long queue. Among these are the US Wing Group, as well as equipment manufacturers General Electric and Westinghouse Electric; PowerGen and BICC of tha UK and numerous other companies from Europe, Japan and North America.

According to the Ministry, a total of 35,000MW of capacity will be up for grabs by foreign independent power developers between now and 2000. Without such foreign help, its ambitious targets will fall far short of target. It has identified s total of 34 projects, both large and small, which it wants to see developed on a build-own-operate or build-operate-transfer (BOO-BOT) basis.

Most foreign partner schemes are coal-fired, but some hydro plants may also be offered

Most of its proposed foreign partner programmes are coal-fired, and some small hydroelectric schemes are also being considered for the private sector. However, the government wants to diversify its energy sources for foreign joint ventures, particularly along coastal sites where coal is not easily available owing to rail transport problems, away from coal and hydro and into other fuels, notably piped gas, LNG and nuclear.

This will be a big challenge in that the two power sources comprise virtually all China's electricity supply. A natural gas pipeline will supply the first 2,400MW phases of Hong Kong's Black Point power station starting in 1996. The complex is owned by CLP of Hong Kong. Preliminary discussions suggest that some of the gas, taken from Hainan Island, could be used for other power stations, but that will depend on the Hainan reserves. At present, the gas is the only such supply being used for power generation in China.

Several foreign ventures are bidding to establish LNG terminals along the China coast, notably the Wing Group, which is examining terminal sites in the Shanghai region. The LNG would have to be imported but would alleviate coal pollution and transport problems.

The World Bank recently announced a \$255m development loan to boost natural gas potential in Sichuan Province to underpin a \$945m scheme. The aim of the scheme is to cut down reliance on coal, particularly for home heating, and to create a base of gas for power station use isn the region.

A major development is China's nuclear programme. The first 950MW unit of the Anglo-French-built two-unit complex at Daya Bay, 50 km northeast of Hong Kong, went on line over the winter and is now delivering electricity to China Light & Power. The second unit is now completed and is being prepared for commercial operation. A further complex is planned nearby, also to be foreign built. A further complex of similar size is being planned for Yangjiang, near Macau, west of Hong Kong.

China is also operating a separate 300MW domestically- engineered reactor in the northeast and is planning new home-built units of 600MW each, with consultancy help from Electricité de France. In all, it hopes to see some 7,500MW of nuclear capacity operating or near completion by 2005.

China's own plant builders are working flat out and producing only mid-range technology

A major reason for the reliance on foreign help is the fact that China's own power equipment manufacturers are operating at full tilt and prodncing only mid-range technology. For manufacturers, the willingness to transfer technology and form joint ventures with Chinese counterparts will be the key to success.

According to Nomura Research Institute in Hong Kong, China's manufacturers are capable of producing up to 400MW hydro-electric power generators and thermal electric power generators with a maximum 600MW capacity. China's big three equipment makers are China Harbin Power Plant Equipment Group; Shanghai United Electric Corp.; and Dongfang Electrical Machinery Works, the last of which is in the process of trading shares on the Hong Kong stock exchange. All are understood to be seeking major equity shareholdings from their foreign counterparts.

It is their output shortfall that has helped open the doors to western hardware snpplies, analysts say. These imports, which generally cost about 58 per cent more than locally-manufactured goods, are now estimated to contribute about 20 per cent of China's annual installed capacity.

Indeed, so serious is the domestic equipment supply problem that China's giant Three Gorges hydroelectric project, which is projected in the early part of the next century to reach 22,000MW, will require at least 12 of its 26 hydraulic turbines to be foreign supplied, say Beijing officials.

□ *Frank Gray is editor of Power in Asia, a FT energy publication*

A very mature market: main reactor control panel in Japan's Kashiwazaki Kariwa nuclear station Picture: Ashley Ashwood

Japan buys little but imports are *no* longer taboo, says **Ronald Ayers**

Land of the rising paradox

Japan's power equipment market is changing fast, presenting foreign suppliers with opportunities to cash in on one of the world's largest but toughest markets.

Japan is a mature economy where overall growth has skidded to a halt after several decades as one of the world's top performers, and its increase in electricity demand has slowed accordingly.

According to Tokyo Electric Power Company (Tepco), Japan's largest power company, which sells about a third of the country's total electricity, total Japanese electricity demand will rise from 689bn kwh in 1993 to just 885bn in 2003. In the 10 years between 1965 and 1975 it tripled.

Estimates for annual growth in the generation equipment market are correspondingly low. Mitsubishi Electric Corp (MEC), which provides machinery in power projects run by its cousin Mitsubishi Heavy Industries (MHI), reckons Japan will yield around 84GW of new capacity over the next 10 years.

"It is a very mature market," says Del Williamson, president of GE Power Systems Asia. "The low growth has continued to decline. Percentage wise it's like the US – in the one to two per cent range."

Two growth areas will be plants running off liquid natural gas (LNG) and nuclear energy.

Japan has always been extremely nervous about the fact that it depends on the outside world for almost all its energy requirements, and has been trying to cut down the amount of power it generates from oil to reduce its dependence on the Middle East. LNG and nuclear has been a major feature of this policy.

In 1973, Japan generated 60 per cent of its electricity from oil, but last year that was down to 16 per cent. In 2003 the figure is expected to fall further to 10 per cent, according to Tepco.

LNG accounted for 33 per cent of total electricity generation in 1993, which should rise to 37 per cent 10 years later, while the nuclear proportion will increase from 25 per cent to 26.

There is also a move towards npgrading existing facilities with equipment that is cleaner and more efficient. The main feature of this is combined-cycle systems, which can boost energy use efficiency some five per cent to around 48 per cent.

"The modernisation and npgrade and replacement is similar to what was seen 10 years ago in the US," says George Butterfield, president of Westinghouse Enargy Systems Japan. "A lot of equipment for the growth period in Japan in the 1960s and 1970s is reaching the age for modernisation."

Tepco says it has already increased capacity by replacing some of the thermal facilities it started up during the period from the late 1950s to 1970. It is now considering scrapping a plant in Shinagawa in Tokyo, consisting of three 125MW generators, and building a 1,108GW facility instead.

Recently, however, recession and two successive cold summers, which cut electricity demand from air conditioning, have eaten into the power companies' revennes, prompting them to rein in their spending on new capital equipment. Tepco announced in April that its capital investment for the 1994/95 fiscal year (ending March 31, 1995) will fall 0.2 per cent from the previous year to 1.692 trillion yen – its first decline in seven years.

Combined investment by Japan's 10 electric power companies is likely to slip below five trillion yen in the year, from 5.01 trillion in 1993/94.

"Investment by the utilities has been very strong, but it's starting to slow," says Timothy Marrable, a senior analyst at Baring Securities (Japan).

While there may not be much good news for Japan's market as a whole, it at least looks more enticing for foreign companies.

Pressure on Japan, especially from the US, to reduca its enormous trade surplus has led the government hera to encourage companies in all *sectors to look beyond thair* domestic suppliers and bny equipment from abroad.

"The requirement to import more equipment to offset the balance of trade has caused Tepco to buy even more equipment on a direct basis from outside Japan," says Mr Williamson of GE. "It's opening the door a crack at least to outside suppliers."

However, with the yen reaching unprecedented highs over the last six months, many companies, under pressure to cut costs are all too glad to do this. Tepco recently announced it would publish annually a list of equipment purchases it is planning for each year. Also, starting with Tepco the power companies are planning to increase the proportion of outside procurements they make through competitive bidding which currently accounts for only around a third of these.

Most business won by foreigners has been through Japanese firms

Westinghouse's Mr Butterfield sees costs as tha main factor in the industry's new openness. "I don't believe *there's been restrictions* in the power industry. It's difficult to do business here because of the expectations of the customer in the power industry and I think some of these expectations are reasonable," he says. "The power companies themselves have taken the initiative to go to the world looking for components and equipment. I think cost is more of an issue [than trade friction]."

Up to now most of the business won by foreigners in Japan has been through relationships with Japanese makers rather than through direct sales. Westinghouse has worked closely with MHI, while GE has relationships with both Hitachi and Toshiba.

GE's co-operation with Toshiba in the gas turbine field has inclnded providing combined-cycle units for Tepco's Futtsu Thermal Power Plant in Chiba, near Tokyo, commissioned between 1985 and 1988.

It is supplying Hitachi with three of the seven gas turbines for a 1,650MW Chubn Electric Co plant near Nagoya, and building nuclear reactors and supplying two 1,350MW steam turbina generators for the world's first advanced boiling water reactor plants in Niigata, on the Japan Sea coast. Part of a *Toshiba-led project, these are* faster and easier to construct than *ordinary* boiling water reactors and will also run more safely and efficiently.

Japan's Big Three join race for East Asian orders

Too quiet at home

SLOW GROWTH at home is making Japan's power equipment makers turn to the high growth East Asian markets.

They are led by Toshiba and Hitachi, better known for their light electronics products, and Mitsubishi, the heavy industrial group.

While the electronics industry has been suffering over the last few years, both Toshiba and Hitachi have remained profitable thanks to their heavy electrical businesses.

Now, however, these divisions are also in trouble as Japan's economy slows and as Japanese companies become increasingly ready to take advantage of cheaper imports.

For the Japanese power equipment makers this competition rednces their margins even wben they snceeed in winning domestic buiness. "Until now, the power companies have stuck with particular makers," says Katsuro Tsujiyama, manager of the power systems marketing planning department at Mitsubishi Electric Corp (MEC), which provides generating equipment and electrical systems for power stations contracted by Mitsubishi Heavy Industries (MHI).

"But this system is collapsing, partly because of pressure from America and Europe," he says. "It has a big effect on us. Buying abroad is cheaper and the power companies can get us to reduce our prices."

The solution they have hit on is a traditional one for Japanese companies: look abroad. However, this time they are not eyeing Europe and the US, whose markets are marred by recession and trade friction, but Asia. Countries with fast-growing economies such as Malaysia and Indonesia are still plagued by power shortages which they want to remove as soon as possible.

"We're thinking about developing countries," says Hiroharu Takayasu, deputy manager of the overseas marketing group of MEC's power department. "The priority market now is Hong Kong – the economy is growing and its light industry is getting bigger. China is the biggest hope for the future and Thailand has a lot of potential."

Baring Securities (Japan) *reported last year that MHI's* Asian sales could well rise from around 10 per cent of total parent turnover in tha year ending March 31, 1993 to around 30 per cent over the next five or 10 years. The company's power equipment division increased its export ratio from 30 per cent in fiscal 1991 to 35 per cent the following year, it said.

The pattern of increasing demand is similar throughout tha region. First, demand comes from industrial development. Countries inviting foreign investment need a solid infrastructure, a major aspect of which is electric power to run factories. Later, consumers using the products of these factories create further demand.

However, countries vary widely in how they award contracts to satisfy this. China, says MEC's Takayasu, while having the largest potential, is one of the trickiest markets. Foreigners angling for contracts have to negotiate a maze of opaqne regulations and tariffs, which often vary from state to state.

At Toshiba and Hitachi, heavy plant made up for losses on electronics

Thailand, on the other hand, is clear and open, making it, he says, "the hardest in the world". The Mitsubishi group has received an estimated Yen 30bn order for three steam turbines and generating equipment for Indonesia's Surabaya thermal power station, which will make a total of 24 steam turbines it has supplied to that country's electricity generating authority.

Hitachi and Toshiba are moving in the same direction, a policy that sits well with their company-wide strategies to get into emerging consumer markets: as well as making electricity generating equipment, they also need electricity to set up consumer goods factories and to see their prodncts being used in people's homes.

Most developing countries want to develop their own equipment industries to a degree, so participating in their markets often means local joint ventures or co-operation at the technological or manufacturing level rather than exporting completed products, according to Toshiba.

While India, Vietnam and the Asean natious are all attractive markets, China stands out with its vast population, double-digit economic growth and untapped natural resources. Hitachi says there are already plans there to add 15GW of new capacity annually. Two thirds of this will be in thermal plants, to take advantage of the country's abundant coal, and Hitachi announced last November a joint venture, Beijing Hitachi Huasun Control System, to make and sell control systems for thermal plants in China.

In January, it set up a joint venture with Harbin Electric Machinery Works to provide engineering services for electricity plants, mainly in hydro-electric power. It hopes this company will later become a base for supplying generating equipment.

Ronald Ayers

Centre of gravity goes east

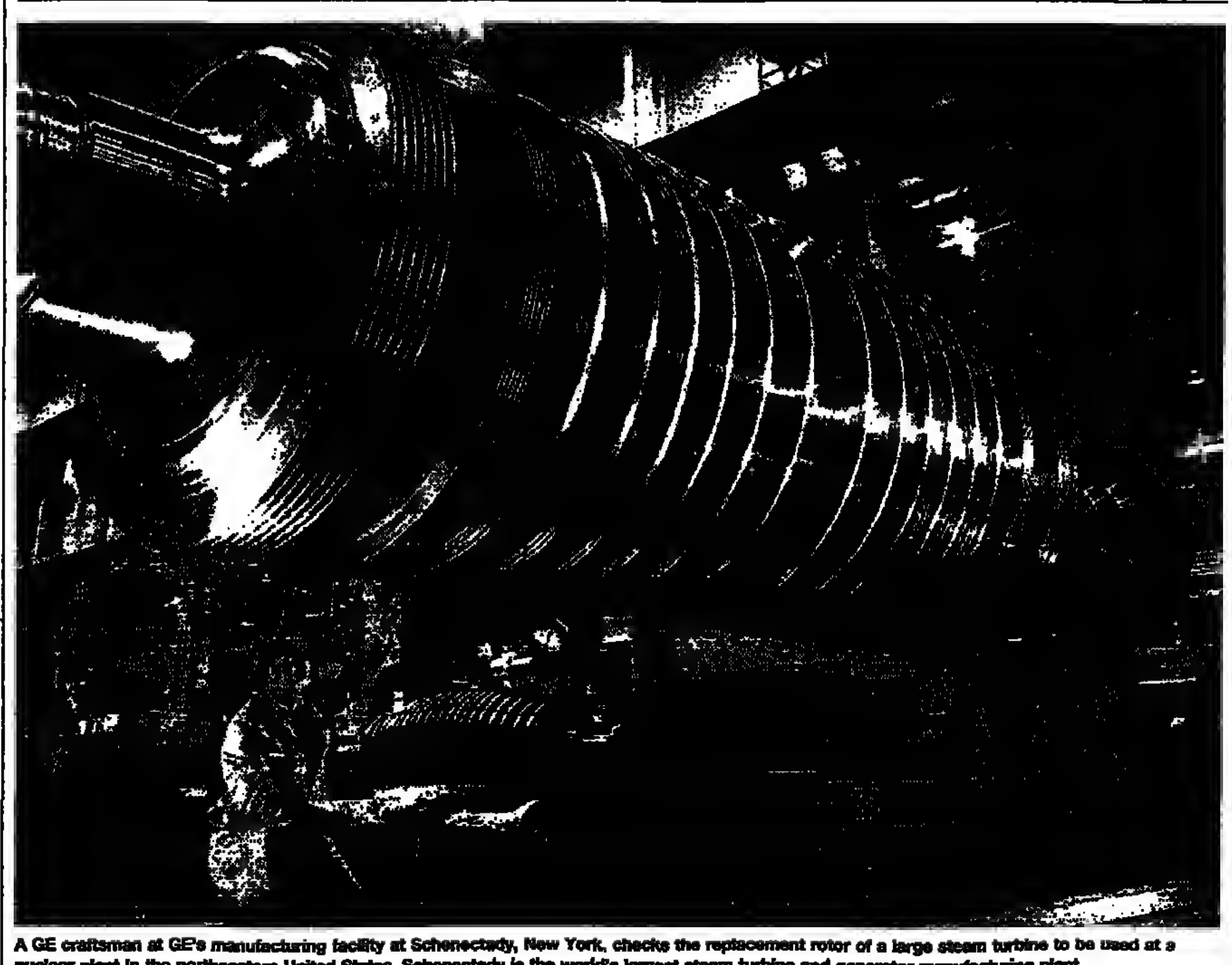
● Contd from previous page

and his comments were echoed last month by Mr Heinrich von Pierer, chairman of Siemens, who said Western companies and countries should work together to help Russia improve safety standards at its nuclear power stations.

On the technical side, the major suppliers continue their quest for ever higher thermal efficiency from combined cycle power. Developments in the past year includad tha announcement by ABB of a new range of gas turbines for which it is claiming efficiencies of 58-58.5 per cent in combined cycle.

Thermal efficiency remains one of the key advantages of gas-fired combined cycle, and Dr Hans Böhm, a member of the executive management group at Siemens KWU, says the next step is to reach 60 per cent thermal efficiency in combined cycle. "It will not need more than two or three years before such a machine is sold," he says.

This month, he says, Siemens is due to begin testing in Berlin of a new gas turbine which will achieve 60 per cent thermal efficiency in combined cycle. Dr Böhm thinks the natural limit will occur somewhere between 60 and 62 per cent, because of the high research and development costs required even to raise temperatures by a small amount.



A GE craftsman at GE's manufacturing facility at Schenectady, New York, checks the replacement rotor of a large steam turbine to be used at a nuclear plant in the northeastern United States. Schenectady is the world's largest steam turbine and generator manufacturing plant

■ Profile: TOM GIBSON OF THE GIBSON GROUP

Slow boat to China that got there first

Tom Gibson likes to keep his Chinese customers and official contacts happy on their frequent visits to his company's headquarters in Glasgow. He puts them up in a company guesthouse with a Chinese cook.

Doing business in China is all about building long-term relationships and establishing trust, says Mr Gibson, chairman of Gibson Group. For the small but fast-growing power plant contractor, these relationships are vital – all its business is in China.

Mr Gibson worked for Babcock before setting up an engineering contracting business, Gibson Wells, in 1978. Four years later, the company was sold to Foster Wheeler, but not before it had won s contract to build the power station for the Daqing oilfield in Heilongjiang province.

In 1990, Mr Gibson bought the company back from Foster Wheeler for a nominal sum. He had been working in the late 1980s for GEC selling power stations in China, and saw a "massive niche" building smaller power stations there that would not interest the big boys of the industry.

Having completed one contract already, albeit some years previously, Mr Gibson had a head start in winning further business in China. Since 1990, his company has picked up three more power contracts, all for coal-fired chp plants: two 30MW stations, Wa Fang Dian and Che Re Gou at Dalian, and s £35m contract for a plant at Fushun.

Much to Mr Gibson's surprise, he also won a contract last year from the Dalian Municipal Engineering Department to supply a traffic light system for the southern Chinese city. Gibson Group has no expertise in traffic lights, but Dalian wanted to work with the company, and Gibson Group is now working with GEC to fulfil the contract.

Already, the company has won some £70m of business from China and turnover is running at £36m a year. Signing of a contract worth about £65m for a 120MW coalfired CHP station at Dadong, Guangxi province, is near.

All this for a company with fewer than 50 employees and only six permanent staff in China, in two offices in Beijing. Mr Gibson has often considered increasing the Chinese representation, but says ths Chinese want to work with a British company and have the opportunity to visit the UK.

Mr Gibson, meanwhile, has made around 40 trips to China building the long-term relationships that have brought success. "They trust us," he says. Patience, he makes clear, is a virtue when negotiating contracts – "nobody can make a decision, but everybody has a veto," says Mr Gibson. The process can take years, and it is always necessary to have some talks continuing while other contracts are being carried out, to maintain momentum. The company has already spent three years – and £600,000 – bidding for the Dadong contract.

Gibson: surprise at the sudden stress on Hong Kong democracy

But Mr Gibson quotes a saying that often proves to be the case when it seems that negotiations have become bogged down intractably: "In China, everything is impossible, but anything is possible." In other words, somehow, a way will be found round a problem.

Mr Gibson has also benefited from good contacts at home. Former Prime Minister Edward Heath has helped the company, and Mr Gibson will be accompanying Mr Richard Needham, the trade minister, on a visit to China in the autumn.

He has also struck up a good relationship with the Department of Trade and Industry and the Export Credits Guarantee Department (ECGD). While some exporters moan about the help they receive, Mr Gibson says he has received strong support. The four recent Chinese contracts were financed with aid from the UK, while the forthcoming job will be paid for with a "super-subsidised loan".

Mr Gibson is now positioning the company to participate in much larger power station contracts in China, up to about 350MW. The company is working very closely with Rolls-Royce on one contract for which Gibson Group is contributing its relationships with the prospective Chinese clients. But it needs to work with Rolls-Royce and similar companies to handle contracts of such a size, says Mr Gibson.

For the future, a number of smaller Chinese contracts are being discussed, along with three much larger build-operate-transfer (BOT) schemes involving Mission Energy of the US and Rolls-Royce. Each scheme would be worth about £300m, says Mr Gibson, but it will take another two years to get contracts signed.

Mr Gibson has been looking very seriously at Vietnam, Malaysia, the Philippines and Indonesia, but has plenty to do in China even if he has all his eggs in one basket.

He is not worried by the political problems between the UK and China over the future of Hong Kong, although he says the row is "bloody annoying". Echoing a view typical of UK businessmen eyeing the Chinese market, he asks why democracy is suddenly so important now in Hong Kong when it wasn't 10, 50 or 100 years ago.

Andrew Baxter

Frank Gray reviews trends among Asia's utilities

Faint smell of gas

The uphill campaign by independent power producers to establish a strategic foothold in the state-dominated Asian electricity industry has received a sharp boost in the past year as a result of several private sector projects.

At the same time, overall energy growth in Asia will boom at 4 per cent per year over the next 20 years, says the International Atomic Energy Agency, more than double the growth in the west.

Natural gas will be the fastest growing energy fuel in the region, providing a further spur to independent producers as gas-fired units can be built twice as fast as coal units.

The recently-negotiated projects underline the growing acceptance by national governments, notably in South Asia and Southeast Asia, of the need for greater public accountability and the reduction in electricity price subsidisation. These changes in perception are helping establish a more hospitable environment for independents to negotiate their deals.

In India, the US- Enron Power Development Group signed a 20-year power purchase agreement with the Maharashtra State Electricity Board, which will allow it to supply the first phase of a 2,015MW gas-fired (LNG) powered plant and related facilities.

The scale and nature of the project – costing more than $2bn and using an imported fuel – makes the deal exceptional in a catalogue of some 70 Indian power projects seeking private sector partnerships. The first phase, now nearing construction start, calls for a 695MW unit costing $930m, to be followed by a 1,320MW second phase. Equity partners with Enron are General Electric and Bechtel of the US.

The build-own-operate project will recoup its costs from the MSEB through the sale of power at 7.5 US cents per kilowatt hour. The deal followed about 18 months of negotiations – not long by international standards – and came on the heels of a similar package of independent power deals involving British companies National Power, British Gas and Rolls-Royce, the largest of which is a 1,000MW coal-fired power station at Visakhapatnam on the Andhra Pradesh Coast.

Independent power producers are also encouraged by the success in Indonesia of a US-Japanese consortium's 1,200MW coal-fired Paiton power project on east Java. The deal is the first sizeable independent power deal in Indonesia and involves project leader Mission Energy of the US and partners General Electric of the US, Mitsui of Japan and PT Batu Hitam Perkasa of Indonesia. Construction will start early next year with full power from the project planned for early 1998.

The breakthrough in Asia's third-most populated country, after China and India, has sent power plant equipment suppliers and potential project sponsors scurrying to the archipelago.

Enron, for example, recently submitted a feasibility study for a joint venture agreement for Indonesia's first large gas-fired plant in East Java.

The 500MW integrated power project is aimed at taking advantage of Jakarta's policy to bring gas-fired power generation into Indonesia's mix of coal, oil and hydroelectric power generating stations.

The restructuring of the industry is not limited to independent power groups setting up alongside state utilities. There is also the overhaul and, in some cases, market flotation of the state groups themselves. The main reasons are to ensure the delivery of efficient electricity plant quickly and to relieve the state of the onerous financial burden of build all plant under its own wing.

> **Energy growth in Asia is expected to boom at 4 per cent a year over the next 20 years**

Legislation was passed in Pakistan in April to authorise the sale to the private sector of thermal power stations operated by the Water and Power Development Authority. Indonesia's PLN is also being prepared for a minority flotation, along the lines, two years ago, of the 22 per cent divestiture by the Malaysian government of Tenaga Nasional Berhad, the state utility.

Thailand's Electricity Generating Authority is preparing to set up private sector subsidiaries and is hiving off some thermal power units to independent power operations. The Manila government is grooming the National Power Corp. for flotation and plans to allow power distributors to built their own power stations. Even Singapore's efficient Public Utilities Board has announced that its gas and electricity business will be commercialised in about two years.

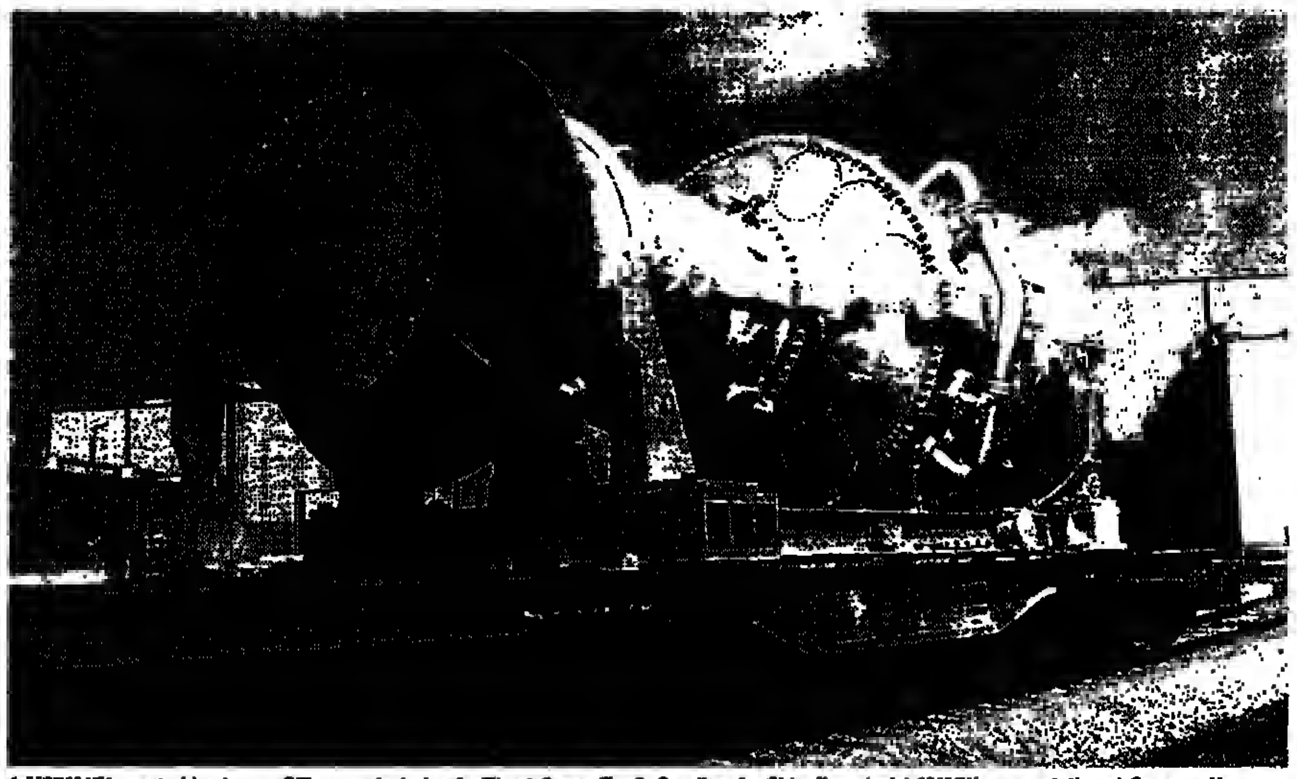
It is doing so as it prepares the groundwork for the $5bn 4,800MW Tuas oil-to-gas power complex, to be built by the end of the century.

In terms of equipment supply, the ascendancy of gas as au important power station fuel is stimulating more interest in gas-fired projects, both by independents and the state utilities. Despite the move to privatisation, it is state utilities which still provide the vast majority of orders, although this is diminishing steadily.

According to David Genever-Watling, chief executive of General Electric Industrial Power Systems of the US, the Asian power generation equipment market should account for 45 per cent of all power equipment orders in the 1990s. This meant 462,000MW of power equipment orders. Of this, 206,000MW would be for coal/steam turbines and 84,000MW for hydropower, emphasising the point that hydro and coal potential in Asia are available in enormous quantities, albeit not always in the right places.

Significantly, gas, which scarcely figured in the equation a decade ago, is now looming larger, with a prediction of 82,000MW for combined-cycle and 37,000MW for gas turbines. GE's prediction also noted that nuclear equipment over the next 10 years would account for 50,000MW of orders, although this is concentrated mainly in Japan, Taiwan and Korea.

China is only now making its first foray into nuclear and Indonesia will not be a factor for a decade.

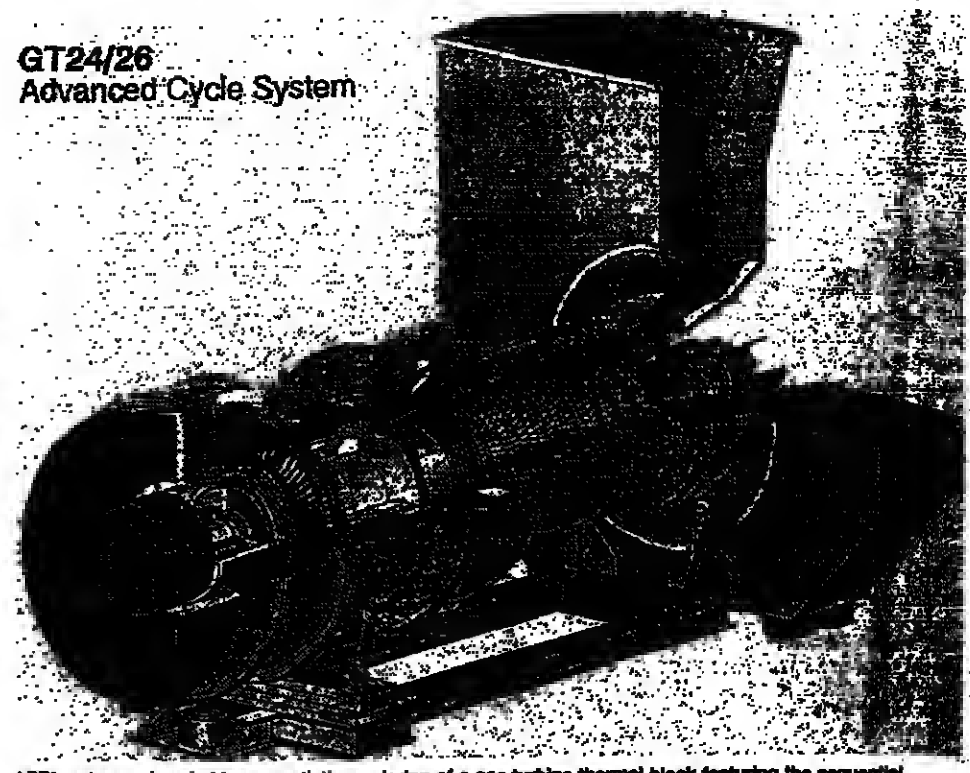


A MS7001FA gas turbine leaves GE's manufacturing facility at Greenville, S. Carolina, for Sithe Energies' 1,000MW power station at Oswego, New York, which, on completion next January, will be the biggest cogeneration facility in the US owned and operated by an independent power producer

POWER GENERATION EQUIPMENT 4

Ian Rodger describes how ABB is working to make gas turbines even more fuel efficient

New ways of taking the heat



ABB's advanced cycle idea: an artist's rendering of a gas turbine thermal block featuring the sequential combustion system. In combined cycle, these turbines will yield 58 per cent efficiency and low NOx emissions

Thermal efficiency is a key factor in power generation equipment, and it has long been a barrier to further development of gas turbines.

The conventional way to improve the thermal efficiency of a gas turbine is to increase the heat of the gases coming through the combustion chamber. But the problem with that is that the greater the heat, the more durable the critical components, such as turbine blades, must be.

Manufacturers of both aero engine and industrial gas turbines have for a long time been *straining against* the endurance limits of metals and applying ever more sophisticated techniques to remove heat transmitted from the gas to the blades.

Through this approach, net thermal efficiency of gas turbines in combined cycle configurations has risen from the 40 per cent range in the early 1980s to the 55 per cent level today. However, manufacturers know there is not much further progress to be made through this route, not least because, as heat increases, so do nitrous oxide (NOx) emissions.

ABB Asea Brown Boveri, one of the three international suppliers of industrial gas turbines that runs some distance behind market leader General Electric of the US, startled its competitors last September by announcing a new range of turbines based on a novel approach to the problem of raising thermal efficiency.

The main innovation in the new GT series is the adoption of two combustors, instead of one, installed sequentially along the rotor and separated by a single-stage turbine. The idea is that more power can be generated for each increment *in heat.*

Turbine manufacturers have long been straining against the endurance limits of metals

An initial burst of power is generated in the single-stage turbine by the expanding gases coming out of the first combustor and then further power is generated in the normal multi-stage turbine following the second combustor. The concept has long been used in steam turbines.

Zurich based ABB said the first versions of its new GT series turbines would achieve gross thermal efficiencies of 58 per cant to 58.5 per cent, roughly two per cent higher than any other machine in the market. This improvement could give a combined cycle user more than 15 years savings with a present valua of $40m, ABB claimed.

Ironically, ABB first produced a dual combustor gas turbine in the 1950s, but with silo type combustors over the top of the turbine. They were well suited for dealing with difficult fuel combinations, but *not particularly efficient.* One problem with them was that the fuel did not spread evenly as it changed direction to move into the turbine, and so left a high volume of emissions.

To solve this problem, ABB developed a more efficient, multi-nozzle burner in the late 1980s, which it claimed would reduce NOx emissions from 60 parts per million to 25ppm.

At the same time, it was developing an anular combustor system similar to those used in aero-engines. The idea is to wrap the combustor nozzles around the turbine so that the fuel flows evenly – and in-line rather than perpendicularly – into the compressed air stream, contributing to better performance as well as fewer emissions.

ABB installed its first anular combustor in a peaking power turbine built by Kawasaki Heavy Industries of Japan under licence for Tokyo Electric Power last year. It is a 164MW 50-cycle (hz) installation, and the design was approved for general use in Japan by the Ministry of International Trade and Industry (MITI) at the beginning of this year.

From there, it was a rela*tively small step* to *think of* putting anular combustors into a sequential combustion configuration. One potential complication was that the whole machine would have to be lengthened to accommodate the extra turbine and combustor, possibly creating a need for a third bearing and perhaps a second rotor. But ABB found that its rotor, made of welded discs, was strong enough to support the additional load suspended between two bearings at each end.

The company is offering two GT models. The GT24 for 60 cycle power systems is to produce 165 MW of power and achieve gross efficiency of 58 per cent in combined cycle applications. The GT26 for 50 cycle applications, will produce 240MW of power and achieve 58.5 per cent efficiency.

The claimed $40m cost saving from these systems was based on a 15 year period, with 20 per cent equity financing, an average nine per cent interest rate and a fuel cost of $5 per million Btu. "The saving would be greater if the fuel price goes higher," says Fritz Gautschi, senior vice-president and general manager of ABB's turbine division.

ABB *announced an initial* $50m order for the GT24 from Jersey Central Power and Light in New Jersey, USA, which will initially be a single cycle peaking power application. It is to be delivered at the end of this year and upgraded to combined cycle by September, 1996.

The group has been very pleased with the reaction to its new approach. "There has been enormous interest from customers and from engineering consultants, and a total absence of mudslinging from our competitors," Mr Gautschi says.

That is not to say that competitors are uncritical. Mr Rodger Bricknell, vice-president, marketing and prodnct management of GE industrial and power systems, suspects the claimed efficiency gains will be less than advertised once the gross figures are boiled down to net figures.

ABB concedes that GE's best performing F series turbina at Seoinchon in Korea achieves net efficiency of 55.3 per cent, only 1.4 points less than the planned level of the GT24. But the average of the eight turbines installed at Seoinchon is over two points lower, ABB believes.

Bricknell also wonders if the GT24 is going to operate at a significantly lower temperature than the 2,350F of the F series. ABB said it would be "slightly below".

Bricknell says GE believes there were ways other than sequential combustion of achieving significant thermal efficiency gains, "but we are not in the habit of giving the competition something to shoot at".

Unrest fails to dent Russia's attractions, reports **Andrew Baxter**

Partners see growth potential

Railway commuters in St Petersburg: an electricity market waiting to be developed and modernised Picture: Tony Andrews

Undeterred by the political upheaval in Russia over the past 12 months, western power equipment *suppliers have been* forming a number of joint ventures to ensure they are positioned to exploit the country's long-term growth potential.

Leaving aside the controversial issue of where the financing will come from to fund the virtual rebuilding of the Russian power sector, there is general agreement among suppliers on what needs to be done.

First, the oldest Chernobyl-type nuclear power stations have to be closed down, and the newer reactors should be modernised. Secondly, new power stations have to be built quickly to replace the older nuclear stations – and for a country with the world's largest gas supplies that suggests quick-to-build gas-fired combined cycle plants.

Thirdly, the existing gas-fired stations in Russia need to be repowered to make them more efficient – ending the wastefulness that has developed because supplies of gas are so plentiful.

The joint ventures are aimed at addressing one or more of these needs but are also intended to recognise that, as Mr Fritz Gantschi, a senior executive in ABB's power generation business, puts it, "Russian potential clients have little or no hard currency". This means that, as far as possible, high-valne added machinery has to be built in Russia rather than imported.

Mr Gautschi sits on tha board of two joint ventures *which ABB has announced* in the past few months in Russia. In September, the Swiss-Swedish group formed a joint venture with Saturn, a Russian company that produces aero-engines and other high-tech equipment. The venture, ABB Uniturho, will supply power generation components and was thus a precursor of a second, bigger deal announced by ABB in January.

In this deal, ABB teamed up with Nevsky Zavod, a big manufacturer of gas and steam turbines, to create St Petersburg-based ABB Nevsky, which will make the latest ABB designs of turbines, power plants and related equipment for the Russian market.

New capacity must be built quickly to replace the Chernobyl-type plants which need to be shut

The two ventures have begum with a total workforce of 1,800, and will work together, with Uniturbo supplying parts to Nevsky. Thus ABB is developing a network of interdependent plants which is analogous to the system operating across much of the modern western equipment industry.

One of the challenges, however, is to develop the similarities with the west throughout the supplier base for the factories. Suppliers of strategic *materials, which after* the break-up of the Soviet Union may not even be in Russia, are having to be edncated about supplier-customer relationships, says Mr Gautschi.

Within the factories, though, ABB is on schedule with such things as introducing its processes and methods, reorganising layouts, and training employees. The aim, says Mr Gautschi, is to train local people as quickly as possible.

Much as in the few other western companies with manufacturing joint ventures in Russia, the general manager of the ventures is Russian while his deputy is a non-Russian. ABB has also brought in outsiders as financial controllers and engineering experts.

Mr Gautschi will not say how much ABB has spent on the ventures, but says it is a significant sum if all the investment in training, and management time, is included.

He stresses, though, that the investment is not done out of charity. Depending on how the first year works out, ABB is looking for the ventures to start producing a positive payback after about two years.

The ABB ventures are hoping to clinch their first orders in the next few weeks, but meanwhile Siemens of German has already delivered equipment from Interturbo, its St Petersburg-based venture with turbine manufacturer LMZ.

Last month, Interturbo completed its second 150MW gas *turbine, which like the first* will be incorporated by Siemens into world market projects. Interturbo will also manufacture four additional gas turbines for the St Petersburg Northwest combined-cycle cogeneration power station and a further four units for the Aktyubinsk IPP combined-cycle plant in Kazakhstan.

Last year,Siemens also announced two further power-related ventures in Russia. In August, it said it would co-operate with Kaluga-based KTZ, Russia's largest manufacturer of industrial turbines, in the production and marketing of industrial steam turbines and power plants.

Three months later, Siemens announced it was establishing a Moscow-based joint venture, Interautomatika, to handle the engineering, sales and marketing of Siemens instrumentation and control equipment for fossil-fuelled power plants. Siemens sees the venture as a milestone towards playing an active role, as a partner in the Russian power supply industry, in the modernisation of the country's power plants.

If the European suppliers have more solid evidence of activity from their joint ventures, their US rivals have also been active or are at least hoping to be so.

Westinghouse last month announced two power-related business agreements which will significantly increase its presence in Russia.

An agreement signed with Minatom, the Russian Ministry for Atomic Energy, will enable Westinghouse to begin establishing partnerships that will concentrate on modernisation and safety enhancement of operating nuclear power plants, and on completing plants that are under construction by applying current safety technology.

As part of the deal, there will also be a joint venture for the design and manufacture of instrumentation and control systems and another that will provide nuclear fuel cycle services worldwide.

In a second agreement with RAO Rossi, the world's largest utility, the US company will become involved in projects to improve power plant efficiency and reduce emissions.

The two organisations will jointly pursue opportunities to modernise existing turbine generation, repower older stations with state-of-the art equipment, and devalop new power projects. The companies will do engineering jointly, but will also have co-manufacturing initiatives with other leading Russian companies.

General Electric, meanwhile, does not yet have any direct power-related joint ventures in Russia, although it was a signatory to a deal in 1991 between Anglo-French GEC Alsthom, with which it has technology links, and the St Petersbnrg-based Kirov Works. The venture is producing 25MW gas turbines for gas-pumping applications.

But *Mr* Ronald *Pressman,* chief executive of GE Power Systems Europe, says Russia is "pretty fertile ground for partnerships". GE views itself both as a supplier of gas turbines to Russia and as a potential partner with a Russian steam turbine manufacturer to serve the combined cycle market.

In time, GE wants to become a local player in Russia, he says, and would prefer to develop more of a "greenfield" partnership with a smaller company rather than with an existing large organisation.

POWER GENERATION EQUIPMENT 5

With four separate utilities Dubai (above) is leading the move to private power Picture: Tony Andrews

Pat Kimber studies electricity reform in the UAE

Privates on parade

The United Arab Emirates, in common with many Gulf states, is affected by the continuing low oil revenues. So for the past few months there has been talk of privatisation and the introduction of independent power producers (IPPs).

Privatisation, it is argued, would release funds for other projects, cut bureaucracy and speed decision-making.

The opposing arguments are practical and emotional. They include the difficulties of private sector involvement in a complex power-producing system and a previously unchallenged policy of cheap electricity for the people.

But now things are changing. An official announcement that the government is to finance a study on the privatisation of public utilities came on the heels of the federal Ministry of Electricity & Water's (MEW) hint that it will phase out subsidies.

Tariffs have remained unchanged since federation in 1971, with no regard to power costs or inflation. Electricity prices will now begin to be raised – initially from two US cents to a still very low three cents a unit.

Closa attention has been paid to what the neighbours are doing. British Gas in Bahrain and international group UPGI in Oman are already building gas turbine plants. In Qatar the government has set up a private company which will eventually run all its power stations.

Rumours have been circulating in Dubai that private sector companies are ready to construct power plants on the build-operate-transfer (BOT) and build-own-operate (BOO) systems, so popular in the Far East.

It is not surprising that Dubai – the long-established trading centre of the region – should be the prime mover on privatisation since it has four eeparate power and water authorities.

The UAE was formed by the federation of seven emirates – Abu Dhabi, Dubai, Sharjah, Fujeirah, Ajman, Ras Al Khaimah and Umm Al Qwain. Before federation each emirate had its own ntility and it was assumed that the newly set-up MEW would take responsibility for the whole country.

It never came about. The three large emirates of Ahu Dhabi, Dubai and Sharjah still run their own electricity organisations while MEW looks after the four smaller emirates which have comparatively little income and very scattered populations.

MEW's budget this year is around $100m, according to minister Humaid bin Nasser Al Owais. This will provide another 150 megawatts in the northern emirates which the federal ministry administrates.

MEW is headquartered in the federal capital, the city of Ahu Dhahi, under minister Al Owais. The depnty minister, Saaed Majid Al Shamsi, works mainly from Dubai. "MEW is politically responsible for electricity and water," he said.

"We represent the UAE internationally – for instance on negotiations for the proposed Gulf grid project. We also cooperate with the electricity companies in the three large emirates – especially on tariffs which are highly subsidised throughout the country."

Of the UAE's entire total installed capacity of 5,500MW, some 900MW is controlled by MEW and is mostly gas turbines with 130MW from diesel generating eets in the more remote areas. It is also responsible for a 132 kilovolt transmission network which is being upgraded by UK consultants Ewbank Preece.

Power in Abu Dhabi emirate (including the city) is looked after by its own Water and Electricity Department (WED). The WED is now in the process of adding some 1,000MW to its present generating capacity of 2,440MW. By far the largest slice of this will come from the $1.8bn 732MW Al Taweelah B power and desalination plant – an extension to the original 253MW Al Taweelah A commissioned in 1985.

Al Taweelah B is being built hy a consortium headed hy Asea Brown Boveri, the Swedish-Swiss multinational, and including ABB Kraftwerke of Mannheim, SAE Sadelmi of Italy and Six Construct of Belgium. Tractebel of Belgium is the consulting engineer for the project which will hs the world's largest power and desalination station when it comes on stream in 1996. There is certain to be yet another extension and ABB looks to be a frontrunner for this contract when it is announced.

Tariffs have remained unchanged since the UAE was formed in 1971

Other WED power projects under construction include Medina Zayed (60MW), the 200MW Abu Dhabi main power station extension and 100MW at Al Ain.

A 200MW gas turbine station with desalination plant is also being huilt in Mifra hy a consortium led by Ansaldo Energia with gas turbines by Siemens. Deutsche Babcock of Germany has a $74m contract to undertake power station maintenance and refurbishment work. WED has commissioned UK consultants Kennedy & Donkin (recently merged with the US Rust organisation) to study existing transmission networks and make recommendations for future demand. Ewbank Preece is overseeing two new 220kv links and the enhancement of an existing 220kv overhead line system.

Proposals to build a load despatch centre to monitor all the water and electricity flows in Ahu Dhabi emirate have finally been accepted by WED. The $90m contract has heen awarded to ABB.

Electricité de France (EdF) is consultant for the project which will involve a regional centre in Al Ain. Power Measurement of Australia is supplying instruments to monitor the grid system.

Sharjah is in a construction boom reminiscent of Ahu Dhabi and Dubai in the late 1970s and early 1980s. The Sharjah Electricity and Water Department (SEWD) currently produces some 700MW, nearly all from its Layyah station in Sharjah town. Two General Electric Frame 9E gas turbine units and additional desalination plant are now heing installed.

This will help to meet the high summer peak when the 24-hour air conditioning demand often overwhelms the emirate's ability to cope with a rapidly Increasing population attracted by the rapid building programme.

Distribution remains a problem on a network which started life supplying power to the long-departed British forces base and airfield. A new link is to be built from the Sajaa gas field to Layyah and further major power line installations are planned.

Dubai has seen a phenomenal growth in its power supply eince the first lights were switched on in 1961. The recently set-up Dubai Electricity & Water Authority (DEWA) has grown out of the Dubai Electricity Company which dates back to 1959.

Capacity was then just 1.4MW from privately owned generators. Now it is nearly 2,000MW and increasing, as more plants come on stream this year. In March, the 457MW Jebel Ali G power and desalination station built by a Siemens-led consortium was fully commissioned.

Jebel Ali E is undergoing a $81m conversion to combined cycle by a consortium led by ABB Kraftwerke. Kennedy & Donkin is consultant for the project which includes ABB SAE Sadelmi for civil works and boiler supply by Combustion Engineering (Italiana).

The extension will add two waste heat recovery boilers to the GE Frame 9E gas turbines installed in 1992. The much-talked-about Jebel Ali H is almost certain to appear in DEWA's plans before the year is out.

Dubai's primary 132kv transmission system voltage has been reinforced by a 400kv network utilising the latest technology.

The construction work was undertaken by the National Thermal Power Company of India (NTPC) which has recently opened an office in Dnhal to supervise its increased workload in the emirates.

Last year, DEWA was frequently In danger of having to cut power supply. This would have been a severe hlow for the extremely efficient utility and for the people of Dubai who enjoy a highly-sophisticated lifestyle.

Kennedy & Donkin is advising DEWA on upgrading its control and management systems but the possibility of black-onts has forced power engineers into thinking that yst another large station, either combined cycle or steam turbines, must be sanctioned. It could be the UAE's first IPP.

☐ *Pat Kimber is editor of Middle East Electricity*

End of debt crisis offers hope, says **Stephen Fidler**

Latin America starts to turn on the lights again

By any measure, Latin America's need for new power generating capacity is huge. Thc World Bank expectsdemand of $24hn a year for power projects in the region in coming years.

There is no donhting the need: the debt crisis brought new spending on power projects almost to a halt across the region. The big electricity deficit that developed has led to widespread power cuts in many countries. In some, such as Colombia and Honduras, it has had a palpable effect in slowing economic growth In recent years.

The debt crisis hrought abont another development: hndget stringency led many governments to shed responsihilities, to privatise and to encourage privately-financed projects in areas previously in the government domain.

Yet handing over more responsibility to the private sector has raised qnestions about how growth in generating capacity will be financed, particnlarly since the big project financiers for governments – the World Bank and the InterAmerican Development Bank – are unable, or have limited ability, to lend direct to the private sector.

The reaccommodation of Latin America in the world's financial markets has helped to ease the way, althongh many international hanks remain inhihited from lending for a variety of reasons. Only Chile – the pioneer in developing private electricity generating capacity in Latin America – has developed its local capital markets sufficiently not to depend on foreign finance.

Bankers agree that the necessary, if not sufficient, condition for private finance is the establishment of a regulatory regime that lenders feel they will be able to trust over a long period of time.

The pricing of electricity is of huge political significance and governments are often tempted to keep prices down to preserve their popularity. A study by the Latin American Energy Organisation (OLADE) showed that in 1990 only five Latin American governments were charging prices at or above long-tcrm marginal cost. "This is changing quite rapidly," said Mr Vijay Chaudhry, head of the power division of the International Finance Corporation's infrastructure department. Now more and more governments are Introducing realistic pricing policies that send the right signals to investors.

Not everywhere, however. In Brazil, where government ministers have spoken about bringing in private generating capacity, the local price of electricity is under 5 US cents per kilowatt/hour. "You can't build world scale generating capacity at that price and and make money," said Mr J. Scott Swenseu, senior portfolio manager at Scudder Latin American Trust for Independent Power. This trust, which has investment of $100m, was launched with the idea of generating some $500m from institutional investors.

Power cuts are widespread and economic growth has slowed

In Mexico, where the government has ostensibly allowed Independently-financed power generation, thc state electricity company has made life difficult for would-be private-sector investors.

Mr Swensen says many investors are comfortahle with Mexico and there is a hig scope for large-scale Investment In power generation there. There have been some recent signs of progress on the long-delayed 700MW Samalayuca II plant near the US border in the state of Chihuahua, south of El Paso, Texas. This envisaged a 20-year huild, lease and transfer agreement, with plant to be owned by a consortium led by GE.

Mr George Aguilera, general manager of GE Power Systems.Mexico, told a conference in January that he expected Mexico to add 18 gigawatts to its generating capacity over the next decadc, with steam turbines accounting for nearly 55 per cent of orders.

New generation orders in Brazil were expected to reach 22GW Argentina 11GW, Colombla 4.5GW and Venezuela nearly 10GW. He predicted that gas tnrhines wonld account for 45 per cent of the gencration mix, with steam turbines steady at a little over 25 per cent and hydro Installations a little under 30 per cent.

Some, of these figures might seem too hlgh. When generating capacity already nnder constructlon comes on stream in Argentioa, for example, some observers think the country may even have an electricity snrplns. Private refurblshing of existing plant has already generated important gains in capacity. With heavy raius helping hydro-electricity generation thls year, prices fell to 4 US cents per kilowatt-hoor.

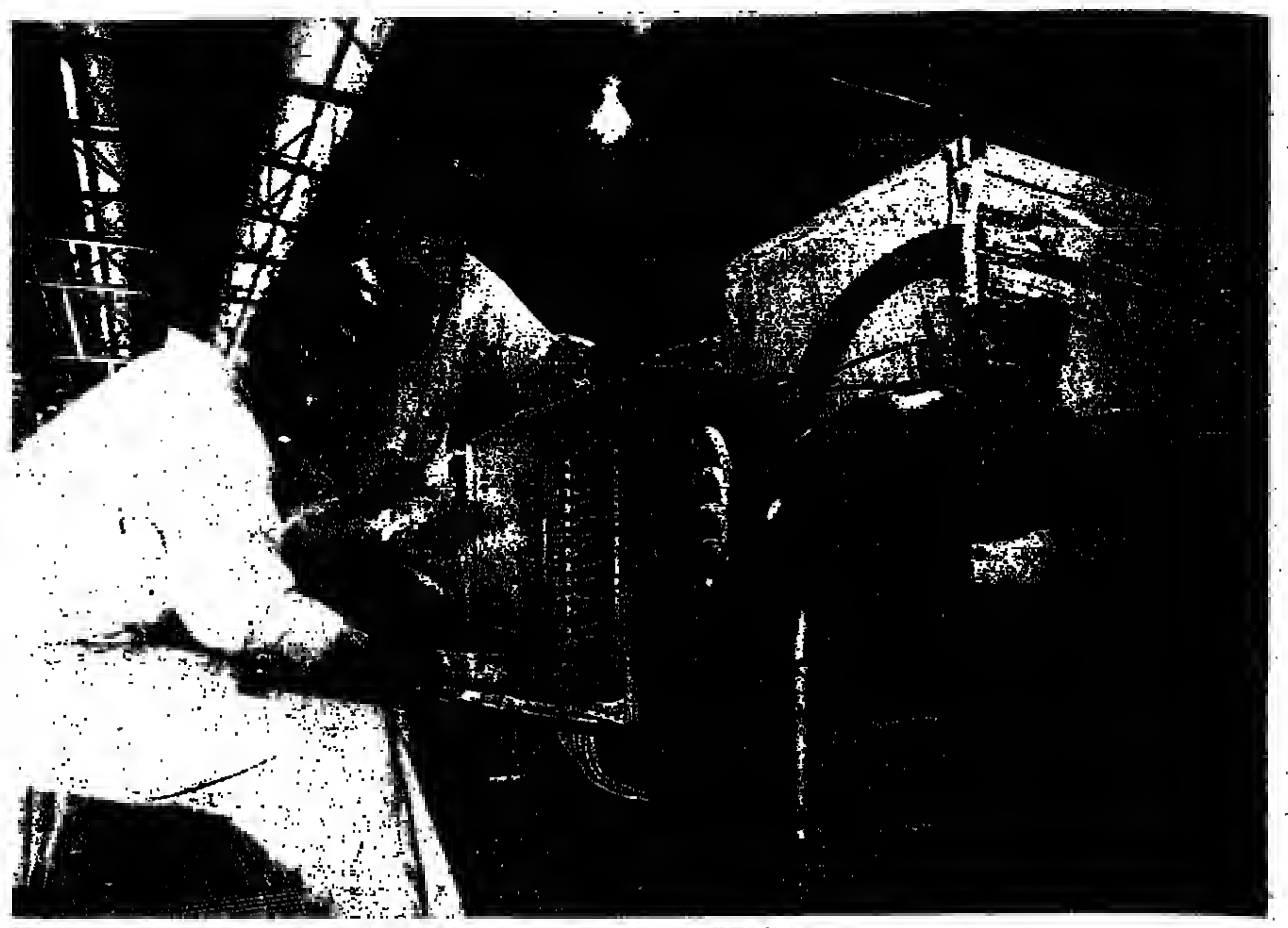
Bnt it is not only in the large economies thet private generating capacity is coming on stream. Two companles, Amoco and Southern Electric International, have just won a bid in Trinidad & Tobago to cxpand generation to the installed 1,100MW capacity.

And even In countries where the overall pricing regime is not particularly investor-friendly, a growlng number of stand-alone private projects aimed at generating electricity for a gronp of users is emerging. This seems particularly workable where the potential users have a foreign exchange generating capacity – It has been used in the Dominican Repnhlic to provide power for a group of hotels.

Overall, manufacturers of power generation equipment are enthnsiastic ahont the prospects. Mr Aguilera of GE commented: "Latin America and the Caribbean, when comhined with the US and Canadian markets, make a potential trading hloc that could surpass the European common market, and more than hold its own against the emerging mega-market of Asia."

Diesel makers seek a bigger market share, says **Andrew Baxter**

Grimy name to live down


Part of a growing trend: a Wartsila diesel-fired generator ordered for a plant in the Philippines

Diesel engines, the workhorses of everything from vans and buses to ships and small-scale power generation, are not normally associated with generating power on a large scale.

This is perhaps not surprising given the fast growth of gas turbine combined cycle power generation over the past decade. Most statistics on thermal power generation tend not to give diesel e separate category of its own, yet according to *Diesel and Gas Turbines Worldwide* new orders for diesel, dual fuel and gas-engine power plants grew to a record 7,000MW last year, about 12 per cent of the annual global power market.

Quietly, diesel engine producers are working to address the common perception of diesel power as dirtier than rival methods of generation, and invest heavily in producing equipment that can be used for reliable, baseload power generation.

Mr Pentti-Juhani Hintikka, Finnish president and chief executive officer of Strasbourg-based Wartsila Diesel Group, is naturally enthusiastic about prospects for an industry of which his company is the leader – it claims a 20 per cent share of the diesel power plant market and has the broadest product range.

Mr Hintikka believes diesel could in time lift its share of the power plant market as a whole to 25-30 per cent, depending on how the industry develops, and says that already over the past five years it has cut down the lead of gas turbines over diesel engines from eight-to-one to four-to-one in terms of total power capacity.

The type of engine and of customer is very varied. Wartsila delivered 1,400MW of power plant installations last year, with half going to south-east and east Asia. China emerged as an important customer – Wartsila's Dutch subsidiary won a contract for a 110MW power plant in Guandong province, while its Finnish company is supplying 13 diesel generator sets to the Pan Yu plant, also in Guandong and due to be completed by the end of the year. Short lead times were an important a factor in winning the business.

Several larger beavy fuel-burning diesel plant deliveries were completed to independent power developers and the mining industry in Central and South America, containerised plants were delivered and commissioned in Russia, while in Europe orders were received for combined heat and power-type gas engine installations.

Diesel and dual fuel plants last year grew to 12 per cent of the annual global power market

Tha bread-and-butter business for the diesel engine industry has for years been the heavy fuel oil-burning engine, with which Wartsila, for example, has had great success in India. Bnt in the mid-1980s, recognising that gas was becoming the fuel of choice for power generation, the company began a major effort to develop a gas-burning diesel engine, and now claims to be industry leader in gas and gas-diesel engine technology.

There are two types of engines that burn gas. First, there is the gas-diesel engine, which Wartsila pioneered in 1987. The important advantage of these engines over every other type of prime mover is that they can run on any type of fuel from heavy fuel oil to natural gas, and with computer control can be switched from one fuel to another without any interruption in operation.

This flexibility, says Mr Hintikka, was a major argument used by Wartsila to clinch an order in the Philipinnes last year. The second basic type of gas engines uses so-called "lean burn" technology, with spark ignition and a lean air-to-gas mixture that raises thermal efficiency and gives very low NOx emissions. The concept is ideal for smaller power plants in the 400 to 3,000kW range, says Wartsila.

Mr Hintikka has a twin strategy for increasing the use of diesel power. In daveloping countries, the aim is to offer a reasonable price and fast construction times, but Wartsila also wants to be a player in the industrialised world, wbere high efficiency, reliability and low emissions are the priority.

In particular, Mr Hintikka is looking to exploit the independent power producer (IPP) market in regions as diverse as the US and south-east Asia. IPP clients accounted for 45.6 per cent of Wartsila's diesel power plant sales last year – "they are really setting a new trend, making it important for us to perform better," says Mr Hintikka. They are followed by utilities which accounted for 25.7 per cent of sales and industry with 20.4 per cent. The remaining 8.3 per cent came from natural resources and other customers.

To succeed against gas turbines, diesel power has to be competitive in terms of thermal efficiency and emissions. By including a steam turbine, gas engines can be used in combined cycle formation, and Mr Hintikka says Wartsila has designs for 100MW plants with thermal efficiency of 54 per cent, closely comparable with combined cycle gas turbine generation.

As for emissions, the relative performance of gas engines and gas turbines depends on how they are measured. The diesel engine industry prefers to measure emission levels in terms of grams per kilowatt-hour, under which diesel engines come out cleaner, but gas turbines emerge on top if emissions are measured on parts per million (volume-based).

There are size constraints on diesel power, Mr Hintikka admits. Ten engines is probably the maximum practical number in each plant, and at 16MW apiece plus a steam turbine total power ontput of 200MW is possible. Beyond that size, the efficiency of gas turbines improves, further loading the odds in their favour.

Even with this limitation, though, Mr Hintikka believes there are plenty of opportunities for diesel power. The traditional heavy fuel oil market will remain, but the real growth will be in gas engines in both the industrialised and developing countries.

The key technological challenge, ba says, is to keep improving thermal efficiency while keeping emissions under control, involving continuing beavy spending on research and development.

At the same time, as lead times are so important to winning orders Wartsila Diesel is engaged in much the same kind of continuous cost reduction and manufacturing reorganisation as has taken place among the gas turbine producars, against whose performance it measures itself.

An example are the changes at the Wartsila SACM Diesel plant at Mulhouse, wbere employment has fallen from 1,000 in 1989 to 750 now. Productivity has risen as lead times have been reduced, through a combination of investment in new machinery and simplifying and shortening the route taken by engines as they progress through the plant towards completion. Mr Matti Tulkki, president and chief executive of the French unit, quotes reductions in internal lead times from seven months to 1.5 months, or from 11 months to five months for the biggest engines.

Andrew Baxter on the persistent dream of winning cheap electricity from chemical fuel cells

It started in London back in 1839

The race to achieve ever higher thermal efficiencies from combined-cycle gas turbine power stations may be the most crucial in the sbort term for the big equipment suppliers, but other "next generation" technologies are not being ignored.

One of the most interesting involves solid oxide fuel cells. Both Siemens and Westinghouse are involved – separately – in developing this technology.

The direct conversion of cbemical energy into electrical energy in a simple bydrogen/oxygen-based fuel cell was achiaved in 1839 by Sir William Grove in London. Fuel cells with liquid electrolytes have been used in space travel but terrestrial applications have remained limited to specialised uses in military and telecommunications.

However, according to Siemens, with advances in knowledge, and especially in materials science, there is evidence that the "forgotten" electrochemical conversion of energy can equal or perhaps even surpass today's successful energy technology under current ecological boundary conditions.

There are various types of fuel cells, depending on the type of electrolyte used, and two broad classifications, low-temperature and high-temperature.

Among low-temperature cells, Siemens has been developing the polymer electrolyte membrane (PEM) type since 1982. These run on very pure gases, are easily transportable, and are available up to 200-300KW. But their cost means they are likely to be used only in specialist applications.

A second low-temperature type with phosphoric acid electrolytes is also available in 200KW units, which can be used in combination up to 1MW, says Siemens. Their thermal efficiency in combined beat and power applications can be as high as 90 per cent, but the cost per kilowatt produced is high.

Interest is now focused on the high-temperature type of fuel cell, and particularly solid oxide fuel calls whicb operate between 950 and 1,000degC and have sophisticated ceramic electrolytes.

"The technology is more difficult but there are big advantages," says Dr Hans Böhm, a senior executive at Siemens' KWU power generation unit.

The hot exhaust gas from the cell could be used in conjunction with a gas and steam turbine combined cycle, giving a relatively high electrical efficiency of about 68 per cent for a 40MW plant. Other combinations, for example an industrial CHP plant, could attain a total fuel efficiency of 75 per cent.

The cells are still very small scale – even a 1KW version will not be available for a few months, says Dr Böhm – and stacks of 300-500KW will be needed for even modest commarcial or industrial power generation. Acbleving that will take several years.

Westinghouse, meanwbile, has announced a two-year contract valued at $7.3m for a programme to develop and demonstrate solid oxide fuel power systems for the NASA Lewis Research Centre. The multi-phase programme will focus on developing transportable solid oxide fuel cells to produce electricity for military applications. The cells will use hydrogen-based fuels such as jet fuel and diesel fual to produce direct current power with very low emissions.

The programme will culminate with the demonstration of a fuel cell with peak output of more than 30KW. It will also produce conceptual designs which will lead to both commercial and military applications of solid oxide fuel cell technology.

Mr Frank Bakos, vice president and general manager of the Westinghouse power generation business unit, says: "This technology's high efficiency and very low emissions will make it an important power generation resource in the coming decades."

FINANCIAL TIMES SURVEY

WORLD FOREST PRODUCTS

Tuesday May 17 1994

Clayoquot Sound, Vancouver Island, British Columbia, which has become a focal point for environmental protests against logging practices. No logging will take place within view of the water. In Los Angeles (right) a milk carton recycling programme has reduced solid waste and helped to teach schoolchildren the advantages of saving valuable landfill space and recovering paper products

Back on course after a gruelling ordeal

The industry has been frog-marched into unfamiliar territory, where it has had to re-examine the entire spectrum of its business practices, writes **Bernard Simon**

A cartoon passed around the offices of the Swedish Pulp and Paper Association aptly captures the mood of the world's forest-products industry: "We're depressed, frustrated, alienated, disillusioned," the caption reads, "but we've adapted to the market."

This sense of discomfort mingled with accomplishment is the culmination of the gruelling ordeal which timber, pulp and paper producers have endured for the past five years.

Already reeling from weak markets and heavy losses, the industry has been frog-marched into unfamiliar surroundings, where it has had to re-examine the entire spectrum of its business, from the way trees are cut to the future of paper in the electronic age.

The challenge has been compounded by the fact that the industry, long a bastion of conservatism, has had little control over the pace of change. The marching orders have come largely from outsiders, including customers, politicians, bankers and – not least – environmentalists.

An unexpectedly strong rebound in pulp and paper prices since late 1993 has raised hopes that the worst is over. Most companies around the world, with the notable exception of Japan, are likely to return to profit this year.

The prospect of better times ahead has also enabled debt-burdened producers to repair their balance sheets, either by selling assets or raising new equity. Canadian forest-products companies have floated four of the 10 biggest initial public offerings on the Toronto stock exchange in the past 18 months. The Swedish government launched its biggest-ever privatisation earlier this year by selling 49 per cent of its stake in AssiDomän.

It would be wrong to conclude, however, that the road ahead is all downhill. Welcome as the recovery in prices may be, it will not deflect powerful, longer-term forces which are shifting the industry's centre of gravity away from traditional products, operating methods, investment patterns and corporate structures.

At one end of the production chain, forests have become the industry's main environmental battleground. "I have a feeling it's the thing we'll be dealing with for the next five to 10 years," says Pertti Laine, director of industrial and environmental policy at the Finnish Forest Industries Federation in Helsinki.

Calls for the preservation of old trees in British Columbia, spotted owls in Oregon, and tropical rain-forests in Brazil and Indonesia have shrunk the area available for logging, especially in North America. Environmentalists have also pressed for more ecologically-sensitive forestry practices, backing up their demands with threats of consumer boycotts and civil disobedience campaigns.

The forestry companies have adjusted their logging practices by shrinking the size of unsightly clear-cuts and leaving trees standing along lakes and rivers. United Paper Mills of Finland two years ago stopped buying old-growth timber for its pulp mills. It has gone so far as to replace the mineral oil in its tree-felling machines with biodegradable vegetable oils.

Such changes have pushed up costs, forcing companies to examine the efficiency of their entire forestry operations. But far-sighted members of the industry have come to appreciate that environmental pressures also create opportunities.

One example is a joint venture in Indonesia involving Enso-Gutzeit, the Finnish group. Enso has insisted that all wood supplies for a proposed new pulp mill in East Kalimantan must come from plantations, and not from the rain forest. As a result, Enso's contribution to the project will include reafforestation of vast tracts of grassland.

Pulp and paper mills have also undergone radical changes. Toxic emissions have dwindled as chlorine gas has been steadily replaced by other, less harmful bleaching agents such as chlorine dioxide, hydrogen peroxide and enzymes.

Mill owners boast that fish are starting to return to once-polluted rivers. Effluent from mills in some Scandinavian towns is now diverted to heat nearby offices, and waste material is used to generate electricity.

Perhaps tha industry's biggest upheaval has come from the drive to recycle an ever-growing proportion of waste paper. Recycled materials now make up more than 40 per cent of tha raw material consumed by paper mills worldwide. While global paper production has edged np by only about 1 per cent a year in the early 1990s, consumption of recycled paper has grown by 5 per cent.

A law due to take effect in Germany in mid-1995 will break new ground by requiring at least 80 per cent of used packaging paper and board to be collected, and 80 per cent of that to be recycled.

The pressures on the forestry industry have reverberated all the way to retail stores and construction sites. Cut-price warehouse outlets, mainly in North America, are demanding that wood suppliers make their do-it-yourself products more "consumer friendly", for instance, by packaging components in kits.

Efforts to broaden the use of wood as a building material have led to the growth of engineered wood products, with a strength and consistency which matches steel, concrete and aluminium.

This top-to-toe shake-up in the way forestry companies do business has accompanied a structural transformation comparable to the upheavals in the global steel, textile and shipbuilding industries in the 1960s and 1970s.

Production of commodity-grade items, such as market pulp and newsprint, is gradually migrating to parts of the world – such as Brazil, Indonesia and Chile – where trees grow fastest, costs are still relatively low, and environmental standards are less exacting.

At the same time, growing demand for recyclable waste paper is shifting production capacity from thinly-populated Canada, Sweden and Finland to the "urban forests" of the US and central Europe.

The biggest investments currently under way by Swedish and Finnish companies are recycled newsprint mills being built, respectively, by SCA at Aylesford, UK, and by Enso-Gutzeit near Leipzig, Germany. Among Canadian producers, MacMillan Bloedel and Fletcher Challenge Canada have drawn up plans for similar mills in California and Arizona.

The three northern countries are moving towards more specialised products which still require a relatively high proportion of virgin fibre. Trees take from 80 to 110 years to grow in Canada, Sweden and Finland, but they produce wood of unusually high quality.

Finland has become a leader in fine writing and printing papers, while Sweden's emerging strength is in high-grade packaging materials. Many Canadian west coast lumber mills have shifted from churning out basic planks to more sophisticated building materials, such as decorative panels.

Weak prices and heavy debt burdens have also forced individual companies to narrow their sights, mainly by selling assets. Abitibi-Price, of Toronto, has decided to stick to newsprint and uncoated groundwood papers. Conversely, Georgia-Pacific, the second-biggest North American group, has withdrawn entirely from newsprint.

"We recognised that in our present size, we can't be all things to all people," says Harri Piehl, chief executive of Finland's Kymmene, which is focusing on fine papers, lightweight coated papers and panels.

Only a handful of broad-based multinationals remain. They include International Paper, the world's biggest – and still one of the most aggressive – companies, and New Zealand's Fletcher Challenge, whose operations stretch from Australasia to North and South America and the UK.

Perhaps the most telling sign that the worst is over is that long-suffering forestry executives are gradually moving from defence to attack on environmental issues.

A blizzard of publicity material from all the main pulp and paper-producing countries argues that few other industries can match forestry's "sustainable cycle" of a renewable raw material, recyclable products, and energy from its waste.

"This industry can be totally clean," says Henrik Ehrnroodt, chief executive of Jaakoo Pöyry, the Finnish forest-products consultancy. But the industry is still pleading for patience. To complete the job that has been started will require more time and a lot more money.

Forest products fight for survival in the electronic age

Paperwork expands

The spectre of a paperless society has hung over the forest products industry for decades. As people turn from newspapers to television, from letters to phone calls, and from office memos to electronic mail, paper should be going the same way as quill pens, copper kettles and buggy whips. Yet paper consumption continues to grow.

Even in North America, where the electronic age has progressed furthest, demand grew by an average of just over 2 per cent a year between 1971 and 1990.

Jaakko Pöyry, the Helsinki-based consultancy, forecasts that consumption in North America will rise by 1.6 per cent a year to 2005, with sverage personal use climbing from 300 kg to 309 kg. "There's still a psychological desire for the feel of paper," says Mr Dick Storat, chief economist at the American Forest and Paper Association in Washington DC.

The growth of electronics has brought some comfort to paper makers. Computer suppliers have yet to find a substitute for their bulky manuals. Computer magazines have mushroomed. Products such as uncoated freesheet, otherwise known as plain white paper, have gained a new lease of life. As personal computers become just another household appliance, the paper used for printers has become a value-added consumer product, complete with brand names and fancy packaging.

Could forestry industry leaders be lulling themselves into a false sense of security? Mr Henrik Ehrnrooth, Jaakko Poyry's chief executive, cautions that forestry has traditionally been a capital-intensive rather than a technology-driven industry.

Research and development spending is low compared to many other sectors. The forestry industry's conservatism is reflected in a widespread assumption that future growth in paper consumption will come mainly from incremental improvements to existing products, rather than an exciting breakthrough that could dramatically broaden paper's horizons.

Pressure from the environmental movement has diverted much of the industry's R&D and new capital investment towards conserving and recycling paper, rather than finding new uses for it. Some companies are going even further by experimenting with materials other than wood as an ingredient in fresh paper.

Weyerhaeuser, the US forest-prodncts gronp, is using pulped wheatgrass from fields in central Oregon as a supplement to woodpulp. Other US producers are working on ways to revive the old Chinese practice of making paper from hemp.

A process similar to paper-making has been developed to produce lightweight "spun-bond" fabrics from natural and synthetic fibres. These fabrics are increasingly used for diapers and sanitary towels. In Japan, scientists are said to have found ways of producing synthetic cellulose fibres, the basic ingredient of paper. For the moment, none of these alternative materials seems likely to displace wood entirely as a raw material. But everyone acknowledges that technology is moving at a rapid and unpredictable pace.

Paper makers' confidence in the future rests mainly on the assumption that fast-growing demand in newly-industrialising countries, especially China and south-east Asia, will more than make up for slackening consumption in the developed world. Consumption in China is currently ouly about 20 kg a person every year, sbout 5 per cent of the level in North America.

Most paper companiea' efforts to broaden consumption centre on producing new grades with a combination of improved brightness, printability, smoothness and strength.

Paper is now used in such diverse products as hospital gowns and heavy bags that store animal feed or hesvy automotive parts.

Each producer hopes that its own new grada will find a niche where competition is minimal and margins high. SCA, the Swedish group, measurea its managers' performance partly by the number of new products they launch. Not surprisingly, some new products are more successful than others.

Extra-smooth and bright newsprint has enabled newspapers to improve dramatically the quality of their colour reproduction. But demand for coated kraftliner – thick cardboard with a glossy white finish, designed as s packaging material for items such as fine glassware – has been disappointing.

Forest products companies are also seeking new uses for their raw material. The popularity of engineered wood products, which share many attributes of building materials such as steel and aluminium, has grown enormously in recent years.

Wood components are increasingly being assembled into entire roofing and flooring systems.

Canfor Corporation of Vancouver puts grass seed and wood-fibre residues on a textile base to make lightweight "take-home" lawns, which can be rolled out in a garden like a carpet. Another Canfor product, known as Woodmat, is formed into interior car door panels, dashboards, kitchen cabinets and packaging trays. Much of the industry's effort is directed at replacing increasingly restricted snpplies of high-quality, old-growth timber with amaller, lower-quality trees.

Mr Chip Dillon,an analyst at Salomon Brothers in New York, predicts that North American production of oriented strand board, which is made from multiple strands of low-quality timber, will grow by 6bn sq ft over the next four years. Plywood capacity will shrink by at least 2bn sq ft.

Some questions about forest products' future may be answered by an ambitious US task force which was set up in August 1993 by the Environmental Defence Fund and six big paper consumers, including McDonald's (fast food), Johnson & Johnson (healthcare prodncts), Time Inc. (magazines), Prudential Assurance and NationsBank.

The participants plan to consult a wide range of groups involved with paper, including producers, environmentalists, investment bankers and graphic designers, in the hope of learning how paper can meet world demands. The taskforce is expected to complete its work in early 1995.

Bernard Simon

World paper and board per capita consumption

Region	Per capita consumption[1] 1994[2]	1984	10-year CAGR (%)	1990 population[3]
European Union	162.0	158.1	0.2	328,183
Scandinavia	230.0	225.6	0.2	17,650
Eastern Europe	33.0	34.3	(0.4)	427,250
North America	310.0	302.1	0.3	276,216
People's Rep of China	18.0	12.6	3.6	1,143,330
India	4.0	3.1	2.6	843,000
Indonesia	9.5	7.7	2.1	179,140
Japan	230.0	228.3	0.1	123,600
Brazil	30.0	27.6	0.6	150,367
Chile	38.0	31.7	1.8	13,131
Mexico	39.0	36.4	0.7	82,000

1 Thousands of tonnes; 2 Salomon Bros estimate; 3 Thousands. Source: PPI European Factbook and Salomon Bros

Management of trees has become a hot topic

Green lobby focuses on logging practices

Axel Springer, the big German publishing house, sent its paper suppliers a detailed questionnaire late last year, requesting information on their forestry practices.

In March, two UK paper companies cancelled pulp contracts with MacMillan Bloedel, the Canadian forest products group, after environmental groups threatened to organise consumer boycotts in protest at "clear-cut" logging in British Columbia. Incidents like these confirm that forest management has become a hot topic, with increasingly tangible commercial consequences.

Companies that cannot demonstrate "good" techniques are facing the threat of customer boycotts. In Nordic countries and North America, the issue of which trees to cut and how to cut them now grabs more headlines than pollution by pulp and paper mills, the industry's traditional environmental bugbear.

Concern has arisen because of fears that logging is systematically destroying biodiversity, in contravention of the Rio environmental accords of 1992. It is not just a question of whether replanting exceeds harvesting levels. It is also about protecting old trees, animal species, soil quality and unique environments. In Sweden, for example, as many as 200 species are thought to be threatened because of the impact of conventional forestry practices.

Environmental pressures to protect forests have helped push lumber prices to record levels in recent years. The volume of timber sold by US government agencies has shrunk from 12.5bn board feet in 1987 to an estimated 4.5bn board feet this year. The impact has been most keenly felt in the US north-west, where efforts to protect the spotted owl have halted logging in federally-owned forests.

The Clinton administration promised last year to relax the curbs. The administration proposed a compromise in late April, which would allow limited logging in the area – provided the plan does not become bogged down in the courts by forestry companies or environmentalists, both of which are unhappy with some of its contents.

Environmental groups have identified the main villain as clear-cutting, which involves completely clearing large areas of forest land with little or no heed to fauna and flora. Greenpeace in Germany has led the way in Europe by insisting on an end to the practice – a demand which has led to the actions of companies like Axel Springer.

One result is that forestry conservation, cultivation and felling methods are coming under scrutiny as never before. This is forcing changes to traditional forestry practices and leading to a more active role by governments.

Many Nordic forest companies insist they no longer clear-cut, although, in most instances, neither have they gone so far as to adopt the practice of "thinning" that many environmentalists advocate.

Companies in Scandinavia and North America have instead opted for a compromise – reducing the size of clear-cut areas, allowing some trees to remain standing, building fewer logging roads and restricting felling around rivers and lakes, which are favoured wildlife habitats.

Environmental pressures to protect forests have helped push lumber prices to record levels

Juhani Pyykkönen, a forestry manager with United Paper Mills, one of Finland's biggest forestry groups, says the company now cuts a maximum of 10 hectares at one go – and between 2 and 4 per cent of the trees are left standing.

UPM has phased out chemical treatment and ploughing; stopped planting non-indigenous pines; started using biodegradable vegetable oils to lubricate forest machines; and placed more emphasis on natural regeneration (seeding not planting). Increased resources are also being put into education, so that forest managers can recognise sensitive environments and adapt their harvesting methods accordingly.

Not for the first time, the industry feels that it is unfairly under assault. But there is no doubt that it is feeling the pressure.

Sweden is discussing an international forestry certification system with the World-wide Fund for Nature. Similar moves are afoot in Canada, including independent audits of individual companies' forestry practices.

Governments, too, are doing their bit – though not always to the liking of the forestry industry or its employees.

Sweden introduced a new forestry law at the start of the year, to give equal priority to production and environmental goals. Finland has just announced proposals which will double the amount of protected "wilderness forest" to 600,000 hectares, as part of its nature conservation programme.

British Columbia's social-democrat government bas promised to expand the province's protected park and wilderness areas to 12 per cent of the province, from about 8 per cent now. Although the industry has signed on to that target, strong disagreements remain on precisely which pieces of land should be barred from resource development.

A storm has also erupted in BC over suggestions by a government commission that the 12 per cent target be augmented by large tracts of "regionally significant land", such as corridors between existing parks, covering about 8 per cent of the province.

More than 20,000 loggers showed their displeasure at a rally in Victoria, the provincial capital, in March. Such protests appear to have cooled the government's ardour for setting aside protected areas.

"New knowledge from research, demands from customers and new legislation are the main forces promoting the development of environmentally sound forestry practices," says Jan Remröd, managing director of the Swedish Pulp and Paper Association. But he stresses that the process carries a cost.

Besides time spent on planning and education, it is estimated that the restrictions will cut long-term harvest levels in affected areas by 10 per cent. That may be a cost that the bigger companies can absorb. But for the small private farmers who dominate forest ownership in Sweden and Finland, it is another matter.

Companies and governments alike appear to be nearing the point where environmental friendliness in the forests may have to take a back seat for a while to commercial and political realities.

Bernard Simon and Christopher Brown-Humes

Recycling continues to increase, but can it replace the forest?

Trees are being cut down to size

Paper chase: students in the US recycling milk and juice cartons

Waste paper recycling has become a way of life in most industrial countries. But in the process, it has raised issues for the forest-products industry which are far from mundane.

The crux of the problem in North America is that mills are concerned about their ability to collect enough waste paper to meet recycling targets.

In Europe, the problem is precisely the opposite. Legislative decrees and government subsidies have flooded the market with used paper at rock-bottom prices.

The trend towards recovering and recycling used paper is furthest advanced in Germany. By mid-1995, 80 per cent of used packaging paper and paperboard will be collected, and at least 80 per cent of that will be recycled. Legislation is also in the pipeline requiring the collection of 60 per cent of newsprint, magazine and office wastepaper.

In the US, the American Forest and Paper Association estimates that, for the first time last year, more paper was recovered than was sent to landfills. Nearly 60 per cent of corrugated materials but only one-third of all packaging paper is recycled.

US papermakers aim to recycle half of all waste paper by 2000, compared with about 40 per cent now. Dick Storat, the AFPA's chief economist, estimates that to reach this target, the collection rate for corrugated material will have to reach 80-85 per cent in urban areas.

US paper mills find it increasingly difficult, however, to lay their hands on cheap recyclable material.

They face stiff competition from local governments and from a growing number of waste-to-energy plants. Mr Storat estimates that about 10 per cent of paper which might normally go to landfills or recycling plants is being channelled into energy generation.

Municipalities are eager to collect recyclable materials to help raise money for their waste-management services. The terms of bond issues floated to finance waste-to-energy plants frequently require municipalities to control the flow of combustible materials.

The paper companies want free-market forces rather than municipal ordinances to decide what happens to discarded paper. "Trust us to put it in the products where it makes the most aense," Mr Storat says.

Two cases before the US Supreme Court, involving ordinances passed in California and New York, are expected to help clarify the contentious issue of when s household or business gives up ownership of its waste material.

At present, the recycled content of different types of paper varies widely. Recycled fibre makes up more than 90 per cent of low-grade corrugated materials and 80 per cent of board produced in the European Union. But the proportion is only 7 per cent in fine printing and writing papers, where the strength and cleanliness of virgin fibres have so far proved irreplaceable.

The degree to which recycled msterial can continue to replace virgin fibres is a tricky question for forestry companies. Enthusiasm for recycling among Scandinavian and Canadian producers in particular, is tinged with nervousness about the future of their vast investments in trees.

"There'a a misunderstanding that recycling can replace the forest," says Jan Remröd, director-general of the Swedish Pulp and Paper Association. The industry has strong misgivings over a Belgian proposal for an "eco-tax", which would be levied on virgin materials as a way of pressuring paper producers to raise the recycled content of their products.

The forestry companies have so far been able to demonstrate that high-quality papers require a high proportion of clean, strong virgin fibres. Even recycled material needs to be topped up with fresh-from-the-forest fibre. Scientists estimate that cellulose fibres cannot be recycled more than five or six times, even for the lowest-grade paper products.

The forestry companies also hope to convince environmental groups and consumers that trees are among nature's most renewable products. Not only do new trees grow where old ones are cut down, but recycled fibres can be used as a fuel when they are too worn, dirty or short for paper-making.

The problem for the industry is that the tide is moving towards an ever-higher recycled content in an ever-widening variety of products. The technology to de-ink printed papers is improving by leaps and bounds.

The AFPA forecasts that the rate of growth in consumption of all grades of recovered paper will far outstrip new production capacity over the next two years.

In the case of printing and writing papers, demand for recovered material is projected to jump by more than a third, compared with a 6 per cent increase in capacity. The recycled-content in these grades is expected to rise from 10 per cent to 15 per cent over the next six years.

David Refkin, director of magazine paper purchasing at Time Inc, the big US publisher, predicts that at least three-quarters of the 250,000 tons of paper Time buys each year – mostly lightweight coated groundwood grades – will be recycled stock by 1996.

Sensing which way the wind is blowing, Scandinavian and North American companies are now directing the lion's share of their capital spending to facilities based on recycled materials.

Commercial common-sense dictates that mills whose main feedstock is waste paper are more likely to be built close to heavily-populated urban centres than to natural forests.

The Nordic forestry companies' biggest projects at present are the recycled-newsprint mills being put up by Finland's Enzo-Gutzeit, near Leipzig, Germany, and by SCA of Sweden at Aylesford in the UK. MacMillan Bloedel, of Vancouver, has spent years trying to gain regulatory approval for a C$1bn recycled-newsprint mill near Sacramento, California.

The trend towards recovering and recycling used paper is furthest advanced in Germany

A growing number of producers are also moving into waste paper collection as s means of securing their raw-material aupplies. In their search for a cheap but reliable source of waste paper, many North American tissue makers now place their own collection bins at strategic points in urban areas.

Bernard Simon

Profile: AssiDomän is Sweden's fourth largest forestry group

Newcomer with a strong base

AssiDomän has just joined the branks of Europe's top ten forestry groups, and Lennart Ahlgren, its president, is clearly relishing every minute of the experience.

Not only does he display an ebullient confidence in wood as a raw material – "I firmly believe this is a product for the future" – but he has a clear strategic vision of the group's development. "Our objective is to be Europe'a leading company in the fields of packaging paper, paper-based packaging and sawn timber," he states.

Lest anyone should doubt him, Mr Ahlgren has been busy even in the few weeks since AssiDomän emerged in its current form, following a state-orchestrated merger and privatisation. It has made a successful bid for Ncb, a partially state-owned forestry group, and acquired a Swedish saw-milling operation.

Further acquisitions would seem only to be a question of time, not least because the company wants to make good use of its financial strength to back its strategic ambitions.

A lot has happened in a short time. A few months ago, AssiDomän did not even exist. It was formed at the start of the year from the merger of two wholly state-owned forestry groups, Assi and Domän. In March it gained new 590,000 shareholders when the state sold out 49 per cent of its holding, garnering SKr7.6bn in Sweden's largest ever prlvstisation. When shares in the group began trading last month, its market capitalisation amounted to SKr16bn.

With 1993 sales of SKr14.6bn, AssiDomän is Sweden's fourth largest forestry group after Stora, SCA and MoDo. It claims to be the world'a largest private forest owner, with 3.4m hectares of productive forest land. It also ranks as Europe's fourth largest prodncer of sawn goods, with annual output of 950,000 cnbic matrea, and one of Europe's five biggest producers of corrugated board. Operations span nine European countries, with 5,000 of the group's 12,000 employees based outside Sweden.

Lennart Ahlgren: something bigger afoot?

Mr Ahlgren says the emphasis on packaging and large forest holdings provide the group with considerable resilience in an industry notorious for its cyclical peaks and troughs. But this is just one aspect of a strategy based on high-quality products, added value, and greater material processing.

The starting point for the strategy is virgin fibre, which is hardly surprising given the company's extensive forestry reserves. "We will concentrate on virgin fibre and will invest in existing mills in Sweden to upgrade production," says Mr Ahlgren. In fact, the Ahlgren philosophy can be summarised by the word "concentration" – concentration on virgin fibre, concentration on sawn goods, concentration on packaging and packaging material. "We won't get involved in printing and writing papers or tissue," he stresses.

The other priority is financial stability. The group has a healthy cash flow, and an equity-to-assets ratio which, at around 50 per cent, is surpassed by few forestry groups worldwide. Results are on rising trend, with a profit of between SKr1.2bn and SKr1.5bn expected for this year, after last year's SKr876m.

Without the strong financial base, it is unlikely that the group would be emphasising its expansion strategy so forcefully. The programme can be summarised as follows:

- In Sweden, the company will continue to build np its saw-mill operations, both by investment and acquisitions, aiming to reach an annual production level of 1.1m to 1.2m cubic metres in the next two years.
- In Europe, where many of the packaging operations are based, the group wants to be close to its markets and is looking to bolster its position in segments like corrugated board. Although it has a relatively strong market position in the UK, Danish and Swedish markets, its share in countries like France and Germany is low.

The acquisition of Ncb – a packaging company – will not leave much of a dent in AssiDomän's finances, as the bid only valued the company at some SKr1.4bn. But most analysts believe Mr Ahlgren is hatching something bigger, including, possibly, a strike at his former company, Korsnäs, where he was managing director for seven years. Though coy on the subject, Mr Ahlgren admits there would be a "natural overlap" with Korsnäs, which is also strong in packaging and sawn timber. There have also been suggestions that the group might be interested in buying MoDo Packaging from MoDo.

Christopher Brown-Humes

WORLD FOREST PRODUCTS 3

Japan's paper industry is going through the shredder. Plagued by over-capacity, poor demand, plunging prices and high financial costs, the industry has most recently been tormented by tha ever appreciating yen. Corporate profitability has plunged. But if the causes of the Japanese paper industry's present crisis are deceptively simple, the remedies remain slusive.

The scale of tbe problems besetting the Japanese paper industry are huge, but the most significant remains over-capseity, a self-inflicted wound. Dnring the bubble years of the late 1980s, paper demand increased 1.3 times GNP growth, which itself was buoyant at that time. As paper and board selling prices rose and raw material prices sank, thanks to the rising yen, so virtually every company took advantage of cheap funding to increase capacity. Paper manufacturing capacity rose from 13.5m tonnes in 1987 to 19.5m tonnes by 1991 as 43 state-of-the art paper machines came on stream.

The basic problem facing the industry is that this 44 per cent rise in capacity was not matched hy a commensurate increase in demand. Indeed, as the new capaclty came on stream, Japan began to elip into the longest and deepest recession since the second world war, an economic downturn which continues to grip the country. Demand for paper and board, which during 1992 tumbled for the first time in 1t years, fell again last year, according to the Japan Paper Association (JPA).

"Damand for newsprint, wood-free printing papers, and art papers all fell last year," says Kiyoshi Shirakawa, deputy gsneral manager of the international departmeot. "Only light-coated papers increased."

"The Japanese market is in deep depression. There is no growth and there is massive oversupply in almost every grade. Paper prices are falling and most companies are losing money," explains Mr Tadahiro Kondo, general manager of the international divisinn of the JPA.

The plight of the industry, already suffering from weak demand and excess capacity, has been exacerbated by the appreciation of the yen which has sucked in imports and hit the ability of Japanese paper manufacturers to export their excess production. The US dollar, valued at Y145 in 1990, plummeted to nearly Y100 this month (May).

Japanese paper exports plunged by 31.7 per cent last year to only 474,400 tonnes, while paperboard exports also slid, down 23.3 per cent to 161,700 tonnes. Barclays de Zoete Wedd estimates imports of paper and board rose just under 10 per cent last year, althougb volumes remain small at about 110,000 tonnes a year, according to Mr Kondo at the JPA.

Given poor demand at home and abroad, falling exports and rising imports, output of paper and board fell for the second year running during 1993, down 1.9 per cent nt 27.7m tonnes. Meanwhile, paper production, which had fallen 2.6 per cent in 1992, dropped another 2.4 per cent this year, according to the JPA. Operating rates have fallen brutally, from 93.7 per cent in 1989 to 82.1 per cent last year. Brokers Smith New Court expect them to fall further to 79.5 per cent.

The impact of overcapacity on prices has been brutal. In the last quarter of 1993, the prices of tissue paper fell 16 per cent, while high-grade paper tumbled 12 per cent. The prices of almost every grade of papar, except newsprint remain on a downward curve.

Corporate profits among the paper companies have fallen five years running. The sector's pre-tax profits are now almost entirely dependent upon sales of marketable securities, according to Smith Nsw Court. Both Mitsubishi Paper and Settsu were forced to sell these to svoid losses during the first half of last year, for example.

Faced with such a dire environment, the Japanese paper and pulp industry has reacted by implementing a series of gigantic mergers. In April last year, two of the country's largest groups, Jujo Paper and Sanyo-Kokusaku Pulp, fused to erente Nippon Paper Industries, Jnpan's biggest paper company hy turnover.

The following October, Oji Paper, the country's largest psper maker, and Kanzaki Paper, the seventh biggest, also combined to create New Oji Paper, Japan's largest paper manufacturer in terms of tonnage. Smaller alliances include the link between Honshu Paper, the leading paperboard manufacturer, and Takasaki Paper, the 11th largest paper group, to share distribution and purchasing ehannels.

The benefits of such mergers have not yet fully materialised, however. Sales and distribution costs have been cut, as have financial costs, but the willingness to reduce labour costs – representing about 12 per cent of all costs – remains limited. The paper companies, like other Japanese groups, are reluctant to make compulsory redundancies, eutting the number of employees through reduced graduate recruitment and early retirement. Nippon Paper Industries has managed to cut its headquarters staff by 400 since the merger througb such means. But according to BZW, the only company to cut aggressively has been Tomoegawa Paper which is in particular difficulties.

Another response has been to sell assets in an effort to reduce debt. Daishowa Paper Manufacturing, Japsn's third largest paper group, has been forced to announce a five-year restructuring plan aimed at reducing debt from Y434bn in March this year to Y270bn. In addition, two ereditor banks, the Industrial Bank of Japan and Fuji Bank, and a shareholder, Marubeni, have sent in managers to help management. The company expects to make a net loss of Y28.2bn during the current financial year.

The prospects for the industry remain grim. The price of pulp, representing half of raw material costs which in turn represents 42 per cent of total costs, have begun to rise. Previously, the paper companies had been benefiting from a fall in pulp prices from n peak six years ago of $820 a tonne, to a low last year of $370, according to Nippon Paper Industries. Prices in December reached $500 n tonne, the company ndds.

The hig question is whether the paper companies wlll he able to make price increases stick given the sickly state of demand. BZW does not expect them to succeed. The danger is the paper groups will be caught between rising pulp prices – partly offset by the appreciation of the yen – and static paper priees. Their unwilliogness to cut capaeity – and ccde market sbare – means there is unlikely to be an improvement on the supply side. Tbe one exception has been Nippon Paper Industries whicb scrapped a plant at Yatushiro last June.

Meanwhile, most of the industry's overseas investments has been aimed at securing upstream supplies. The industry has wood supply ventures in Australia, Papua New Guinea, Vietnam, Indonesia, the US, Canada, Brazil and Chile. Last year, for example, New Oji Paper and Nissho-Iwai formed an acacia and eucalyptus plantation joint venture on New Britain Island.

Mr Kyoji Hanamizu, general manager of public relations at Nippon Paper Industries, says it is highly unlikely his company will build capacity in Japan for n long time. Any new production is likely to he linked with the company's plantations, probably in Indonesia where the company is participating in a Y100bn 450,000 tonnes a year pulp mill based on acacia trees. Given the high operating costs in Japan, the future of the Japanese industry is clearly going to be overseas.

Japanese paper and paperboard production ('000 tonnes)

Grade	1985	1987	1988	1989	1990	1991	1992	1993
Newsprint	2,592	2,668	3,067	3,217	3,479	3,516	3,253	2,917
Printing & communication*	5,991	6,637	7,628	8,630	9,251	9,730	9,610	9,542
Packaging & wrapping	1,078	1,115	1,129	1,175	1,185	1,177	1,110	1,075
Sanitary tissue	1,089	1,226	1,281	1,349	1,366	1,438	1,474	1,522
Miscellaneous*	1,040	1,161	1,238	1,155	1,148	1,187	1,144	1,144
Paper total	11,790	12,807	14,343	15,726	16,429	17,048	16,592	16,202
Paperboard total	8,679	9,730	10,281	11,083	11,657	12,020	11,718	11,559
Paper & paperboard total	20,469	22,537	24,624	26,809	28,086	29,068	28,310	27,761

* Paper classification has been altered since 1988. Figures are estimates

Source: Ministry of International Trade and Industry

Huge problems are besetting the Japanese industry, says **Paul Abrahams**

Tormented by the rising yen

Latin America's forest industry has continued to expand, says **David Pilling**

A region well positioned to cash in

Latin America's forestry industry, dominated by Brazil and Chile which account for 90 per cent of regional exports, has continued to expand in the face of tough global conditions. Although soms companies saw profit margins squeezed last year – as new capacity came on stream just when the market hit rock-bottom – most are well placed to take advantage of any sustained upturn.

As profits in the northern hemisphere are sapped by tongh environmental requirements and high costs of labour, energy and transport, production of pulp and other wood products is seeping south.

Latin America, which boasts 27 per cent of world forests, is well positioned to cash in. Costs are generally low and environmental legislation, although tightening, is more lax as governments drive for economic growth.

The continent's greatest asset is its climate. In Brazil trees grow all year round, halving the normal cycla of eucalyptus plantations to five years. Radiata pine, which accounts for 80 per cent of Chile's 1.6m hectares of plantations, grows in a quarter of the time it takes in Canada.

Such natural advantages have led to buge investments in Brazil and Chils, where an estimated $9bn was spent between 1987 and 1992, mainly in the pulp sector. Such investment has transformed Latin America from a net importer of wood products in 1987 into an important exporter, now accounting for 15 per cent of world pulp supply. Analysts predict that, within 10 years, Latin America could be accounting for 30 per cent of global trade.

Although Chile faced tough conditions last year, Eladio Susaeta, of Chile's Wood Corporation, predicts a 20 per cent rise in export volumes in 1994 and earnings of $1.45bn. Mr Juan Moya of the National Forestry Corporation (Conaf) sees industry confidence reflected in last year's 130,000 hectares of new forest, at 10ha per Chilean, one of the world's highest planting rates.

The industry, entirely privately-owned, has advanced rapidly since the mid-70s when it counted on only 300,000ha and exports of $125m. Generous planting subaidies bave quintupled the area of man-made forests, which should double again to 3mha by 2005.

Planting is expected to continne apace, despite the end of state subsidies next March, because of the commercial incentives to supply Chile's six pulp mills which have a total annual capacity of 2m tonnes. Three mills came on stream in 1992, all with substantial foreign participation, nearly doubling potential output. One, the Santa Fe plant, fed by eucalyptus, marks a trend towards faster-growing hardwoods for the production of short-fibre cellulose. The Santa Fe mill, a $460m joint venture between Scott Paper of the US, Royal Dutch/Shell and Citibank, has a 230,000-tonne annual capacity.

Pulp makes up less than half of Chile's forestry exports, with sawn wood, planks and chips also exported. Several Chilean companies are looking st projects in Argentina's potentially rich, but underdeveloped, forestry sector.

Unlike Chile, Brazil'a industry has not had the advantage of a stable macro-economic environment, but has managed to prosper despite regular changes at the finance ministry and skyrocketing inflation. Some $6bn has been invested in as many years, with billions more waiting for better conditions at home and abroad.

The industry has exploded over the past two decades, trebling output of paper and board and lifting pulp production from 1.1m tonnes in 1973 to 5m tonnes currently. In 1992, Aracruz Celulose became the world's higgest producer of short-fibre pulp, earning $460m from sales of 977,000 tonnes after a $1.2bn expansion of its Espirito Santo mill.

Tbe potential for further increases in installed capacity are enormous. Mining conglomerate Companhis Vale do Rio Doce – which has five big reforestation and pulping projects, some involving Japanese investment – could boost pulp output by 1.7m tonnes by 2000.

Brazil, in contrast to Chile, has a huge internal market of 150m people which devours 75 per cent of domestically-produced paper and more than 60 per cent of pnlp. Bnt this still leaves abont 1.3m tonnes of paper and 2m tonnes of pulp for export which last year fetched $1.5bn.

In addition to pulp and paper, Brazil also earns more than $500m annually from exports of logs, planks and wood manufactures. This year, pulp and paper production are expected to rise by 8 and 6 per cent respectively, according to Mr Horacio Cherkassky, president of industry association ANFPC. Few doubt Brazil's potential to better its ranking as the world'a eighth biggest pulp producer.

Such expansion plans will need, however, to take account of Latin America's growing environmental awareness. In Chile, for example, where a law on native forests is working its way through parliament, much controversy has been raised by the commercial exploitetion of 100-year-old native lenga trees to provide woodehips for Japan. Last year, Chile earned more than $100m through exporting chips prodnced predominantly from native forest species.

Forestry companies argue that native forests are exploited rationally in a manner which protects hy placing n commercial valne on land that might otherwise be eleared for agricultural use. Mr Moyn of Conaf says the subject has provoked "much passion and little logic" snd that Chile, s poor country, must make adequate nse of its resonrces. Conaf says that 90 per cent of Chile's forestry industry uses man-made wood.

Mr Nicolo Gligo, a Santiago-based UN expert, says the industry could be sustainable, but only if tougher regulations are enforced. He would like to see a ban on all chips produced from native species. Of industry elaims that it plants more trees than are felled, be says: "I am in favour of plantations but in addition to, not as a replacement of, native forests."

Whatever merits differing arguments may have, the fact remains that 200mha of Latin America forest have been destroyed in the past 30 years, according to the Food and Agriculture Organisation. If the forestry industry is to enjoy a long, prosperous future in the cootinent it must reverse that trend.

WORLD FOREST PRODUCTS 4

Indonesia has the largest rain forest in the world after Brazil

Crackdown on illegal loggers

When the Indonesian forestry ministry recently announced that it had banned a large timber company from listing shares on the Jakarta Stock Exchange, the move caused a stir. For the ministry imposed the ban because of its suspicion that the company was involved in illegal logging.

It would certainly not surprise timber industry afficionados if the allegation were true. What created the interest was that after many years of complaint about lack of resources and information, the ministry was now taking steps to enforce the law.

Indonesia has the largest rain forest in the world after Brazil. It totals 144m hectares and covers 70 per cent of its land area. The country has long been aware of the value of its forestry resources and the need to conserve them.

Government policy concentrates on control of illegal logging and the introduction of higher value added products, a reduction in shifting cultivetion by forest dwellers and the provision of new employment, and the establishment of renewable timber plantations to support a fast-growing pulp and paper industry.

Log exports were banned in 1985, and low interest loans offered to companies establishing plywood factories. As a result, exports of plywood have jumped from US$991m that year to US$3.2bn in 1992. Total exports of processed wood products, including furniture, reached US$4.2bn in 1992, the third largest export earner after oil and textiles. Principal markets are Japan and South Korea.

At the same time, the pulp and paper industry has also shown remarkabla growth. The industry has been privatised and capacity is expected to grow from 1.5m tonnes of pulp and 3.2m tonnes of paper to 14.6m tonnes of pulp and 7.2m tonnes of paper over the next 10 years.

With pulp production costs of US$250 a tonne, significantly lower than European and North American producers, Indonesia is expected to become a significant producer. Exports of pulp and paper have already risen from 188,000 tonnes in 1987 to 660,000 tonnes in 1992.

Indonesia is aware of the value of its forestry resources and the need to conserve them

The timber industry is dominated by the giant Barito Pacific Timer, the largest listed company on the Jakarta Stock Exchange and the holder of 5m hectares of forestry concessions, en area larger than Switzerland.

Barito is controlled by Mr Prajogo Pangestu, a young ethnic Chinese Indonesian businessman with close links to Indonesian President Suharto and his family. It exports 95 per cent of its annual production of 1.3m cubic metres of wood products and 90,000 tonnes of adhesives.

Barito had sales of US$459m last year and net profit of US$145m, a rise of almost 100 per cent on the previous year. The company is benefiting from a rise in plywood prices from around US$300 a cubic metre in late 1992 to more than US$500 a cubic metre now.

The company made an initial public offering of shares last year, raising US$292m. It has plans to expand into the pulp industry and has purchased a total of 660,000 hectares of forestry land, some of which is already replanted.

Barito last month signed a preliminary agreement with Marubeni and Nippon Pulp and Paper of Japan to establish a US$1bn pulp plant with a capacity of 500,000 tons. This is expected to come on stream in 1997. It is also acquiring timber assets in Malaysia.

Another large ethnic Chinese-owned business group, the third largest in Indonesia, is the principal participant in the existing pulp *and* paper industry. The Sinar Mas group, a long established business with interests in banking, property, food and agribusiness, controls the two principal listed companies, Indah Kiat and Tjiwi Kimia.

Indah Kiat, with timber plantations and mills in Sumatra, has production capacity of 790,000 tonnes of pulp, of which 410,000 tonnes has just come on stream, and 344,000 tonnes of paper, backed up by a timber concession of 300,000 hectares.

The company had turnover of US$305m in 1993, up 53 per cent on the previous year but earnings were hit by lower world pulp prices and fell from US$57m to US$42m.

Brokers W. I. Carr expect a recovery this year as the new pulp output pushes forecast sales to US$463m and improved export pulp prices and domestic paper prices increase net profit to US$76m.

Sinar Mas's other big producer, Tjiwi Kimia, has a production capacity of 21,600 tonnes of pulp and 394,000 tonnes of paper. It supplies 35 per cent of the domestic paper market and 50 per cent of the local stationery market and exports 40 per cent of its production.

Its expansion plans involve upgrading to high quality papers such as non-carbon required paper and cast coating paper and installing new machinery.

The company's turnover last year was up 25 per cent to US$289m and is forecast to rise by a similar amount this year. Net profit was US$37m, up 19 per cent. A surge in the domestic price of paper to US$900 per tonne, compared with US$600 per tonne internationally will push up profits this year.

Barito Pacific Timer has 5m hectares of forestry concessions, an area larger than Switzerland

But the government is expected to move to reduce tariffs and surcharge against imports, currently at 40 per cent, to reduce prices. Nevertheless, Tjiwi Kimia is expected to increase net profits for 1994 by 39 per cent to US$51m.

Rapid growth in environmental action groups has accompanied the rise of the timber industry in Indonesia and companies have been regularly hit by complaints. Indorayon, a large pulp and rayon producer which had earlier been accused of polluting water supplies, suffered a serious chlorine leak at its North Sumatra plant last year and was forced to cease operations for a time.

Indorayon produces long and short fibre pulp with a capacity of 280,000 tonnes backed up by 269,000ha of tropical forest and 86,000ha of pine forest. Its rayon plant has a capacity of 60,000 tonnes.

Forestry and environment officials have been quick to investigate listed companies' pollution controls and have enforced requirements to install expensive waste treatment facilities. Indah Kiat was fined last year for allegedly acquiring timber from improper sources.

But environmentalists believe there is still much to be done, especially in the monitoring of illegal logging. They point out that, according to Indonesia's own rules on sustainable forest management, the maximum amount of timber that can be cut is 31.4m cubic metres a year. But actual demand is 44m cubic metres, almost 40 per cent higher.

More effective monitoring of resources, plus better tax collection from timber corporations are the main recommendations from action groups for the future control on one of the country's most valuable resources.

Maggie Ford

Profile: the South African producer, Sappi, has been hit hard

Ready to exploit changing political climate

It has been a rough few years for Sappi, the South African producer that claims top position on the continent in pulp and paper prodnction. Not only has it had to contend with the industry-wide downturn, hut a severe South African recession, compounded by the worst drought of the century, has severely weakened the domestic market and forced the company to write off a chunk of operations.

On top of that, Sonth Africa's volatile political situation has played havoc with Sappi's international expansion programme, first by making it difficult to get permission from the South African Reserve Bank to export funds, and then, as a result of the currency's recent slide, exaggerating the effect of losses in its new offshore operations.

Core operations supply over half of the country's *paper requirements*

Domestically, therefore, while Sappi remains dominant in the market, the company has been hit hard on all fronts. The effects of the three-year local recession was aggravated by increased competition from imports, particularly from *Brazil and Finland*, which have exploited the country's low tariffs on paper products to exploit the top end of the South African market at low prices.

Despite all this, aggressive expansion has seen the company's turnover rise from R2.9bn ($580m) in 1990 to R5.54bn in 1994, but after-tax earnings have dropped over the same period from R604m in 1990 to just R142.2m in 1994.

Now, bowevar, Sappi believes the worst is over on both counts, and it is well placed to exploit the expected upturn in the market and take advantage of Sonth Africa's return to economic growth and its newfound international respectability.

Executive chairman Eugene Van As says: "The changing political climate is creating new business opportunities for our operations."

The company is a fully-integrated producer and its divisions encompass all sectors of the industry from raw timber to finished papers. Its core operations together supply more than half of South Africa's total paper requirements.

Sappi grows its own timber on 340,000 hectares of forest land in the southern Africa region, most of which is then used in the company's own plants. These in turn are divided into Sappi Timber industries, kraft papers, fine papers and pulp.

The timber operations supply structural wood products for the building and mining industry, as well as particleboard and medium density fibreboard for use in home furnishings. For its other products, the group has three fine paper mills and three kraft *paper mills around the country*, used for packaging and a wide range of boma, school and office requirements. Its Usutn pulp division, based in Swaziland, is the lowest cost prodncer in the world of unbleached kraft market paper.

Sappi's forests benefit, in non-drought years, from the local climate, which allows for fast growth of trees suitable for pulp. Combinad with access to some of the cheapest electricity in the world, this puts the company among the cheapest producers in the world despite the relatively high quality of its output.

This cost competitiveness is trua of most of Sappi's South African operations, helped by a combination of cheap inputs and low delivery costs. And, given the company's substantial excess capacity, Mr van As believes that the end of South Africa's recession, combined with increased spending plans by the new government in areas such as edncation, will significantly benefit tha local paper market thus helping lift domestic results in the near future.

Over the past few years, however, the export market has become the *main focus* for many of the company's divisions. Sappl now ships a wide range of products, accounting for around 65 per cent of total outpnt, to all parts of the globe, with east Asia and Europe being dominant,

Spearheading this drive is the company's SAICCOR division, the world's lowest cost dissolving pulp prodncer, which reserves nearly all of its prodnction for overseas demand. The operation has a capacity of 450,000 tonnes and is undergoing a R1b expansion plan which will make it hy far the world's biggest single producer.

To complement these exports, over the past few years the company has focused on increasing its overall foreign exposure and its foreign asset hase.

European operations are expected to be in the black for 1994, says Eugene van As (above). Pictured left is the giant woodfree coated paper machine at Hannovier Papier's Stuttgart mill

In addition to being listed in Frankfurt, Paris and London, the company now runs a substantial European operation, with subsidiaries in the UK and Germany, making it one of the largest producers of paper products on the continent.

The local climate allows for fast growth of trees suitable for pulp

However, despite impressive recent productivity gains and improvements in output, these acquisitions have proved very costly for Sappi. The group's five paper mills in the UK, acquired in 1990, were particularly severely hit by the British recession, although they have managed to increase market share.

Similarly, Sappi's high profile purchase of Hannovier Papier tha biggest German producer of coated papers, made in 1992, has also suffered from the domestic recession there. As a result, tha company has proved a severe drain on resources and its losses have severely depressed Sappi's bottom line because of their denomination in D-Marks.

However, the sell-off of some assets has recently improved Hannovier's cash base, and here, too, Sappi feels that it has turned the corner and is in an excellent position to exploit the upturn.

"Our European operations are very mnch in the value-added area of the market, encompassing high-quality coated and uncoated papers, and we expect to be in the black for 1994," asserts Mr van As, citing a 24 per cent growth in exports last year as support for this view.

That investors share this view is evident in Sappi's share price, which has been buoyant in spita of the the company's recent dismal results.

However, soma analysts warn that this picture may be overly rosy, particularly as much of the group's machinery in the UK and South Africa is old and ontdated, requiring a hefty dose of new capital expenditure over the next few years.

"The company's basically healthy, but it will probably take a little longer to achieve substantial profitability, especially in Europe," warns Christopher Sloan of brokers Fergusson Brothers Hall Stewart.

Nonetheless, Sappi has managed *to increase* its *market* share on the continent, helped by the successful operations of Sappi Trading, a Zurich-based marketing arm formed in 1991 that condncts its activities through Speciality Pulp Trading in Hong Kong and regional distributors in Europe, Africa and America.

South Africa's increased respectability as a trading partner has allowed the group to start tapping previously closed markets, and overall exports have been growing rapidly. Further expansion, particularly in east Asia and the Americas, is expected over the next few years.

Mark Suzman

Profile: prospects have improved for Chicago-based Stone Container

Reprieve for debt-laden company

Stona Container, tha Chicago-based paper and packaging manufacturer, is counting on this year's modest but steady increases in linerboard and newsprint prices to rescue it from the financial conundrum that has brought it three consecutive years of deepening losses.

Stone, a 68-year-old company which started as a family business that traded in twine and used corrugated cartons, entered the 1980s as a vertically-integrated packaging company *with sales of $600m*. Then, under the tutelage of Roger Stone, a grandson of the founders and a disciple of junk bond king Michael Milken, Stone Container ballooned to a company with $5.7bn in sales during its peak year, 1990.

However, the growth was *achieved through a series of* highly leveraged acquisitions that left the company in debt. The purchases coincided with a boom in the cyclical paper and packaging business, and the biggest were made at the height of the market.

The largest of these, the purchase of Montreal-based Consolidated Bathurst, cama in 1989 at a price of $2.6bn. Consolidated Bathurst owns four newsprint plants in Canada, and one in Ellesmere Port in the UK.

Analysts say Stone's acquisition of Consolidated Bathurst was en exercise in bad timing. "Basically, Stone paid a high price for Consolidated and got stuck with a lot of debt just as the market (for paper and container board) weakened and cash flow was going down," says Brian Bogart, a bond analyst for Duff and Phelps.

As a result, Stone Container entered the 1990s more than $4bn in debt, and with cash flow that was not adequate to meet both operating needs and dabt-servica obligations. Annual losses grew from $49.1m in 1991 to 1993's record $358.7m. The company's desperate need for cash led to a dilntive plan *for a $500m* equity offering early last year tbat was aborted aftar the announcement sent Stone's shares into a tailspin, depreciating *their value by half*.

Even with some debt relief and an upswing in business conditions, analysts say Stone has a rough year ahead

However, since then the markets for Stone's primary products have strengthened. The industry announced price increases for newsprint and linerboard in March, and has been successful at implementing them. Linerboard supplies are particularly tight, with manufacturers, including Stone, operating plants full-out in the first quarter. Stone announced a second $40 per tonne price increase for linerboard effective June 1, and is optimistic it will stick. At the same time, discounts for newsprint have been trimmed.

The market turnaround has given Roger Stone the reprieve he needs to restructure Stone's mountain of debt and ward off creditors.

In December, he created a company called Stone-Consolldated using most of Consolidated-Bathurst's assets, and then *sold a 25.4 per cent stake in the* new entity to Canadian investors hungry for new offerings.

A series of smaller asset sales have followed, and the company has not ruled out selling a further stake in Stone-Consolidated as a means of raising cash.

In February, tha company completed a public offering of 16.5m shares of common stock and $710m in senior debanturea. The proceeds from the $925m offering were used to prepay creditors.

Ira Stone, Stone Container's chief spokesman, says the company has met all of its requiremants for long-term debt maturing through 1995 and much of 1996.

However, the debt clock continues to tick, with another $732m in long-term debt due in 1997 and some $2.9bn due thereafter.

Even with some debt relief and what appears to be an upswing in business conditions, analysts say Stone has a rough year ahead. "I think their *business* will continue to get better, but they still lost money in the first quarter, even with the price improvements," says Mark Rogers, an industry analyst for Prudential Securities. If annualised, the first quarter loss translates into a $500m deficit for the year, he said.

Part of the problem is that even though product prices strengthened in the first quarter, they still did not recover to the point where they were in the first quarter of 1993. Forest products analysts says that if the forest products market continues to firm it will be in the areas where Stone is most heavily invested – linerboard, corrugated containers, and newsprint and market pulp.

Mr Bogart, with Duff and Phelps, says Stone may not see a profit until 1996. "Stone has done a great deal of financing to stay ahead of its debt maturities, and now its cash flow is improving," be said. "They have a high degree of operating leverage, and each price increase has a generous impact on their bottom line."

However, he said, Stone faces hefty environmental charges to clean up air and water emissions at its plants and factories. Those charges, according to the company, could be as high as $400m.

Shareholders appear to be banking on Stone's leveraged position in a rising forest products market. Stone Container shares have nearly trebled from a 1993 low of $8.50 a per share to more than $16 recently.

Laurie Morse

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A PETITION has been presented to the Court of Session, Scotland, by City Site Estates public limited company, whose Registered Office is at 219 St. Vincent Street, Glasgow, for confirmation of reduction of share capital by the cancellation of the whole amount of its capital redemption reserve. In the Petition the Court has pronounced the following Interlocutor:

Edinburgh 13th May 1994

The Lords appoint the Petition to be intimated on the walls in common form and to be advertised once in the Edinburgh Gazette, The Financial Times and in The Herald newspapers; appoint any party claiming an interest to lodge Answers thereto if so advised within 21 days after such intimation and advertisement.

Signed
J.A.D. Hope, lpd

Of all which intimation is hereby given.

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PEOPLE

Goodall takes on another chair

Manweb, the Cheshire-based regional electricity company, has become the latest power group to appoint a relative outsider to one of its two senior posts. Bill Goodall, on the company's board for less than a year, is to take over as non-executive chairman at the end of August.

He will succeed Bryan Weston who is retiring after 45 years in the industry.

Before privatisation four years ago, the way to the top in electricity was a lifetime in the industry. Weston's appointment yesterday means that half of the 12 regional electricity companies have chairmen who have spent the hulk of their careers in other industries.

The Manweb appointment means Goodall, 62, now chairs four companies; the others are Volex, electrical controls group, Hopkinsons, engineer, and Inveresk, paper manufacturer.

Goodall began his career as a management trainee with Scapa Dryers in 1956 after graduating from Pambroke College, Cambridge, and Leeds University. From there he rose to be chairman of Scapa Group, a post he relinquished last October.

Non-executive directors

Sir Peter Thompson, 66, the businessman who has been heavily involved in promoting wider share ownership, has joined the board of Brewin Dolphin, one of the UK's biggest private client stock brokers.

Sir Peter (above), who is president of ProShare and several quoted companies, made his name as chairman of NFC, the employee controlled transport group which he brought to the stock market. He is one of two non-executives joining the board of Brewin Dolphin shortly before it gets its shares floated on the market.

Dame Angela Rumbold, 62, a deputy chairman of the Conservative Party and MP for Mitcham and Morden, has also joined the board.

Brewin Dolphin, which has 32,000 clients and a network of 12 regional offices, has developed through a series of mergers of old-established stockbroking firms. It was bought by the Scandinavian Bank in 1987 at the time of Big Bang. In April 1992 its management bought the business from the Scandinavian owners and in April 1993 it bought Bell Lawrie, one of Scotland's largest stockbrokers.

■ Derek Arkley at ASH & LACY; Norman Askew, Jeremy Potter and John Vernon are retiring.

■ David Quysner, a director of Abingworth Management, Alexander Smith, an assistant director of Rothschild Ventures, and Sir Michael Richardson, chairman of Smith New Court, as chairman at SURGICRAFT.

■ Werner Dieter, retiring chairman of the board of management at Mannesmann, at TI GROUP.

■ Stuart Henderson, former chairman and md of Contractors Services Group, and John Jessop, retired GKN director, at BRITISH BUILDING AND ENGINEERING APPLIANCES.

■ Billy Carbutt as chairman at COMAC GROUP.

■ Lionel Ross, former finance director of Whitbread & Co, at CARPETRIGHT.

■ David Newbery, director of the department of applied economics at Cambridge, at MARCIAL ECHENIQUE & PARTNERS.

■ John Lithiby has resigned from TRANSPORT DEVELOPMENT GROUP.

■ Barry Eldred, joint md of John Briton, as chairman of BARNSLEY BUILDING SOCIETY.

■ Rhiannon Chapman, a former director of the London Stock Exchange and former head of the Industrial Society, at S.R. GENT.

Finance moves

■ Richard Horlick, formerly a director of Newton Investment Management, has been appointed md, UK and European institutional business, at FIDELITY INTERNATIONAL.

■ Mike Allen has been appointed strategist for the Japanese market for BZW SECURITIES (JAPAN).

■ Charles Wilcox and Stephen Wright have been appointed directors of LAWRENCE KEEN.

■ Frank Wong, formerly regional treasurer for North Asia for Citibank, has been appointed regional director for the Asia Pacific region of NatWest Treasury, part of NATWEST Markets.

■ Martin Goodall has been appointed a director of LAZARD Investors.

■ Peter Skinner, formerly general manager, customer service at British Telecom, has been appointed a director at APAX PARTNERS.

■ David Lewis has been appointed a vice-chairman of HAMBROS BANK, chairman of Hambro Pacific and a director of Hambros Australia, based in Hong Kong. Thomas Candy and Ken Williams have been appointed executive directors of Hambros Bank, and Ian Beauchamp, Dolf Campman, David Curtis, Andrew Hamilton, Harvinder Hungin, David Jenkins, Graham Jones, Paul Remington and Vesa Suurmunne have been appointed directors.

■ Charles Metcalfe, formerly vice-president of J.P. Morgan's emerging markets group, has been appointed director of marketing for MERRILL LYNCH global asset management.

■ Job Curtis has been promoted to become a director of TR HIGH INCOME TRUST.

■ Chris O'Connell, a director of Kleinwort Benson Deutschland, has been appointed a director of IBI CORPORATE FINANCE.

■ Larry Armstrong has been appointed senior vice-president and director of business development at FIDELITY BROKERAGE; he moves from Fidelity Brokerage Group in Boston.

■ Stewart Douglas-Mann, formerly md, has been appointed chairman of the corporate finance department at GUINNESS MAHON. David Hickey, Christopher Stainforth and Andrew West have been appointed joint mds.

Phibro entices Bonner to return

Nothing bears testimony more eloquently to the gradual re-emergence of Phibro as a force to be reckoned with in international commodities trading than Peter Bonner's decision to rejoin the Salomon subsidiary to head its non-ferrous and precious metals team in London.

Bonner, now 49, joined what was then known as Philipp Brothers as a junior and worked his way to the top of the metals team during 25 years with the organisation. With impeccable timing, he jumped ship in 1989 because he could see Phibro sinking beneath its huge overhead costs. A year later Salomon reduced Phibro, once world leader in commodities, to a shell, closing or selling many of its core businesses and making heavy redundancies.

More recently, Salomon has been rebuilding its commodities business and now has 15 people in its metals trading team, as well as trading coffee, cocoa, grain, sugar and, of course, oil.

Bonner spent some time with Credit Lyonnaisa Rouse and then joined Barclays Metals which has grown quickly since the banking group decided to embark on London Metal Exchange trading three years ago. Barclays now wants to pause for breath and consolidate - which means that Bonner was more than ready to listen when Salomon offered the Phibro job. He says: "From Salomon's point of view, it was better the devil you know, I suppose."

TECHNOLOGY

Spiders spin a profit

Dangling from its web, a spider uses the strongest and most elastic material in the world. Proportionally, a spider's silk can support external pressures of 200,000lb per square inch and can stretch up to 135 per cent of its original length. It is stronger than steel and more flexible than nylon.

Researchers from the University of Wyoming have now cloned the genes that make the proteins found in an especially tough and elastic kind of spider's silk. Genes from the golden orb web spinner, found on the US southern coast, have been inserted into bacteria, which have produced small quantities of the proteins.

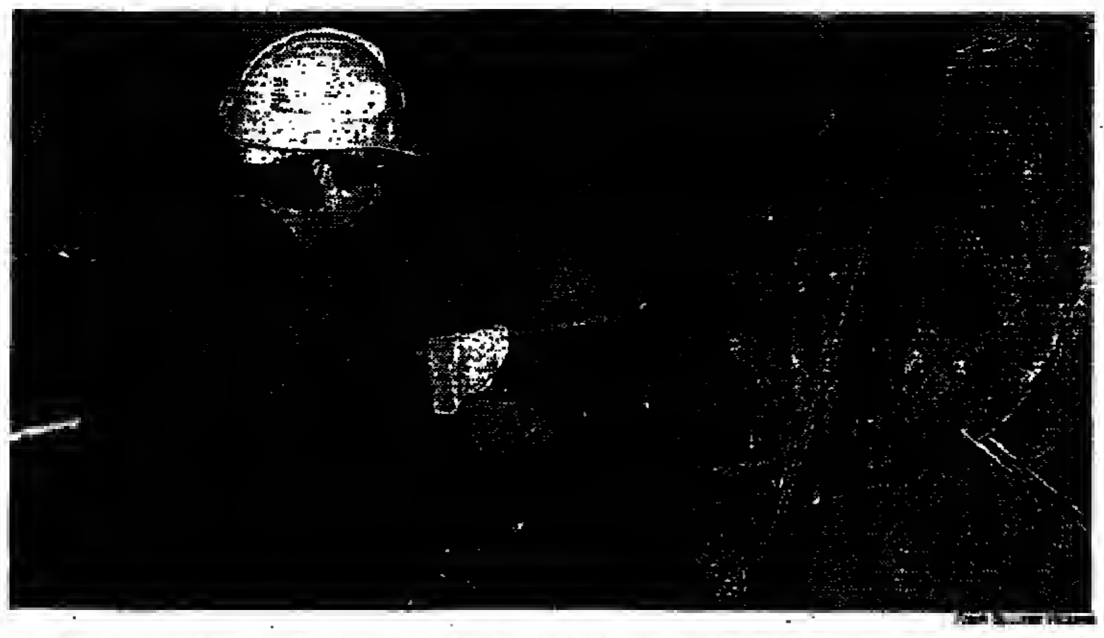
By harnessing the properties of these proteins, dubbed Spidroin 1 and Spidroin 2, an array of new kinds of super-tough, elastic materials could be developed, says Randolph Lewis, the molecular biologist who heads the Wyoming research group. He reported his discoveries at a recent meeting of the American Chemical Society.

Lewis says the proteins are the ideal material for super-thin sutures that would cause minimal scarring in surgery. They could also be used for artificial tendons and ligaments that could withstand the body's demands, yet still bend.

So far, Lewis's group has only produced tiny amounts of the proteins in genetically altered bacteria. The next step is mass production. "With large-scale production it will be possible to start making fibres for testing in various applications," says Lewis.

Other academic and military scientists in the US are also examining the unusual properties of proteins found in spider silks, although the work has not yet attracted commercial companies. However, some are likely to take an interest if researchers can mass produce and then spin the proteins into real thread.

Marjorie Shaffer



Identifying each mining region's geological 'fingerprint' will stop gold being used as an untraceable international currency

Worth its weight in gold

A 'fingerprint' test for substances is beating fraudsters, thieves, and money launderers, writes **Ken Gooding**

They jumped for joy in Kalgoorlie, centre of the new Western Australian gold rush, when owners of the Karpa Spring mine announced that test results showed its ore contained nearly 10 times more gold than usual for mines in the state.

Joy soon turned to shock when the fraud squad was called in. Karpa Spring had been sold and drilling by the new owners, Noranda, Canada's biggest natural resources group, and a small Australian company, Perilya, showed the mine had scarcely any gold.

Three people eventually appeared in court. Some vital evidence for the successful prosecution case was provided by John Watling. His analysis showed that the first sample from Karpa Spring – with the high gold content – contained gold from two sources. One must have been added artificially.

"Salting" a gold mine, by adding precious metal from elsewhere, is a confidence trick as old as the industry itself. But it will be much more difficult to avoid detection from now on, thanks to Watling and his colleague, Hugh Herbert, scientists at the Western Australian Department of Minerals and Energy's Chemistry Centre in Perth.

They have developed an analytical process that gives every mine a unique "fingerprint". Its basis is the fact that each of the earth's geological regions has unique characteristics in terms of the minerals present and the pattern of their association with other minerals. Gold from a particular region, sometimes even from a particular mine, has its own identity. And, as with human fingerprints, the technique can be used in a courtroom to show a jury patterns on a sheet of paper to compare one gold sample with another.

This technological breakthrough affects not just salters of mines and gold thieves: it will make life much more difficult for fraudsters and drug barons too. Watling hopes that the work will result in much of the world's gold being fingerprinted so that its origins can be pinpointed with certainty. It will cease to be an untraceable international currency.

This could, for example, make laundering illegal drug receipts more difficult. One way in which illegal drug rings move their money into the banking system is to buy exhausted gold mines. Stolen gold is bought with tha illicit cash and mixed with dirt and possibly some metal. The metal goes to a local refinery, which has no way of knowing it is not newly-mined gold. When it leaves the refinery, it has become "legal."

Watling, a British geologist and geo-chemist, first successfully put his theory to the test in 1975 when four tonnes of gold were found at Heathrow airport in London, disguised as a consignment of lead. Watling was working in Johannesburg at the South African Council for Scientific and Industrial Research. He showed that the gold came from a mine near Welkom in South Africa and the owner, Anglo American Corporation, eventually got back its precious metal.

It is only recently that he and Herbert perfected the technique, using an A$800,000 (US$425,000) laser ablation, inductively coupled, plasma spectrometer. Only a tiny trace of gold is required. The sample is cut by a laser linked with the spectrometer which identifies the trace elements present.

Today, defence lawyers in Western Australia no longer question the validity of the technique. Watling and Herbert have been asked to give evidence in 20 gold theft and fraud cases in the past two years, but most defendants changed their pleas to guilty once the scientists showed their evidence.

Twenty gold-producing countries around tha world have asked Watling to carry out work for them. The technique can be applied in many other ways. Cannabis can be traced to where it was grown through the nutrients in the water and fertiliser – the plant's "signature" is determined by what has sustained it. Also, where routine blood testing of employees has to be carried out at mines or process plants for such substances as lead, cadmium, mercury and arsenic, the technique could be used by a nurse who would take only 20 microlitres of blood (a pinprick) instead of the 10 millilitres usually needed.

Watling was asked to fingerprint the artefacts at the Angkor Wat and Preah Khan temples in Cambodia. Artefacts are stolen at ancient sites all over the world, but where, for example, a head has been cut from a statue and definitive fingerprinting could prove which statue it came from, "collectors would not be so willing to buy and it might not be so worthwhile for such things to be stolen", says Watling.

He worked with the Australian pearl industry which was worried about the way some cultured pearls were discoloured. This project cost A$3,500 and in the past 14 months has saved the industry A$1.5m, equivalent to 2 per cent of annual production.

Now, Watling is fingerprinting diamonds. De Beers, which dominates the industry, last month delivered a consignment of uncut diamonds from around the world to test whether the technique can be used to distinguish them.

However, all this work must be completed by July 1, when the Chemistry Centre becomes a profit centre and it will be impossible for him to carry on as before, doing much of the work in his free time but using the centre'e equipment.

He hopes to find sponsors to take the technique into the private sector. It would, he suggests, require A$3m to buy a plasma spectrometer, rent some space, hire three people – and himself, full-time – to take the new business through its first 18 months.

Apart from building up a library of gold fingerprints, Watling has been working on a computer programme that could take over from him the job of interpreting data from the spectrometer. When that is perfected, he says, there could be a number of linked gold fingerprinting centres around the world.

Technically Speaking

Healthcare's Holy Grail

By Daniel Green

"Pharmaceutical companies have a problem: their customers want value for money." This would be taken for granted in other industries. But it is news to the drugs sector because not long ago, doctors decided which pills to prescribe and someone else paid without question.

Now, those who do pay – governments, employers paying health insurance premiums, and insurance companies paying drug companies – are flexing their muscles and pushing down drugs' profit margins.

The industry's solution so far has been to pour billions of dollars into buying health management organisations and pharmacy benefit managers, the middlemen of the business. Last summer, Merck paid $6bn (£4.10bn) for Medco; earlier this month, SmithKline Beecham paid $2.3bn for Diversified Pharmaceuticals Services.

Other companies such as Pfizer and Bristol Myers Squibb have preferred alliances to takeovers, but the intention is similar: to force the middlemen to promote a narrow range of products.

Such an approach would be doomed to fail in most other industries. Which kind of insurance broker would you prefer to deal with: one that peddled one company's products, or one that could offer the best product fo your circumstances?

It is not easy for the drugs industry to convince customers that it is offering good value. Once, the sales pitch discussed safety and effectiveness, and clinical trial results provided the facts. Now, the buyer wants to know whether the deal is good, but there is no reliable body of economic data.

Everyone recognises that there is more to a good deal than price. One anaesthetic may be cheaper than another, but if it takes longer for the patient to recover from tha operation, the extra cost of an overnight stay outweighs the saving on tha drugs bill.

According to Jan Leschly, the new chief executive of SmithKline Beecham, providing the right kind of healthcare for "managing" diseases is better than curing them. But disease management relies on a firm knowledge of health economics. What are the patterns of drug use and the costs of different levels of treatment? How and why do hospitals and doctors vary in their costs per patient, per disease type and a host of other measures?

Some of this information is in the hands of drugs companies. Much more is held by, for example, health insurers. Like all insurers, they need to know actuarial and demographic figures to charge competitive premiums that return a profit.

Pharmacies, too, have information that the drugs companies do not. Dispensing data could be valuable to a drugs maker in the way that point of sales data from a supermarket is useful to a soap powder manufacturer: rapid feedback of the level of demand helps in the management of any manufacturing business.

Then there are other drugs companies which, in the right alliances, could exchange information with partners.

If any one big drugs company could combine these information sources, it would have the building blocks for a sales pitch that was as convincing economically as clinical trials are for safety and effectiveness. At the same time, it could avoid the accusation that customers were forced to buy its pills simply because the middleman was pushing them. It could offer doctors, hospitals, employers and governments the real holy grail of healthcare reform: a treatment that was rational in terms of safety, effectiveness and cost.

Of the large pharmaceutical companies, Glaxo is one of the few yet to make public its strategy. It has plenty of cash, a distaste for takeovers and an image of itself as the world's foremost drugs company.

Whichever company succeeded in pulling off alliances to exchange information could claim to have leapfrogged its rivals. It would offer customers what they wanted – a recipe for success in any business.

Barber ruling put to the test

EUROPEAN COURT

Preliminary opinions were given recently by the Enropean Court of Justice in two test cases arising out of the Barber jndgment on the equalisation of pensions. The court is examining the compatibility of methods of pension equalisation adopted by occupational pension funds post-Barber with equal pay rules.

The first case concerned the occupational pension fund of Avdel Systems and focuses on the equalisation of benefits in 1991 referred to the ECJ by the Bedford industrial tribunal.

The second involved similar questions from the Hague cantonal court concerning eqnalisation of the pensionahle age for employees of the Royal Dutch Shell group occupational pension fund in 1985.

Advocate General Walter Van Gerven said it followed from Barber that sex discrimination in occupational pension schemes must be abolished.

The central question in the present cases was whether and, if so to what extent, an occupational pension scheme can equalise pension ages to take account of Barber hy raising the pensionable age for women rather than lowering it for men.

Each of the pension schemes had chosen to raise the normal pensionable age for women which meant female employees in future had to remain longer at work to gain a full occupational pension.

In the Avdel case, the ECJ was asked whether it was inconsistent with the equal pay rules for an employer to replace different normal pension ages for men and women of 65 for benefits received in respect of particular periods of service. These include:

- after the date of equalisation on July 1 1991;
- before the date of equalisation, but after May 17 1990 (the date of the Barber judgment); and
- before the 17 May 1990.

In the Dutch case, the equalisation was in 1985 before Barber and the pensionable ages were raised from 55 to 60.

In response, the Advocate General said the ECJ should rule that it was not contrary to the equal pay rules for an employer to raise the pensionable age for women rather than lowering it for men in respect of future periods of service after Barber and after the date of equalisation.

EU law does not preclude a reduction of benefits provided that the level of benefit is the same for male and female employees. To rule otherwise would amount to an undesireable interference in a policy area presently within the competence of member countries. European law also does not preclnde such equalisation applying to periods of service completed before Barber.

But, in respect of periods of service between May 17 1990 and the equalisation date (where later), it is necessary to increase the level of benefits of the disadvantaged sex because those rules form the only valid frame of reference for direct enforcement of the principle of equal treatment, pending the adoption of new rules to remove the discrimination.

In answer to other questions from the national courts, the Advocate General said that there was no obligation on the employer to minimise the adverse consequences to women whose benefits are affected by the employer's decision to eliminate the difference in pension ages.

In particular, an employer was not permitted to maintain transitional arrangements agreed before Barber under which a limited group of females enjoyed a lower pensionable age of 55, while the age for men was 60, with regard to periods of service after May 17 1990, as in the Dutch case.

However, an employer could only justify a cut in benefits paid to women during the period after Barber and before equalisation in exceptional circumstances.

It is for the national court or tribunal to assess whether factors which have no connection with sex discrimination and which represent a need relating to the existence of the business or the solvency of its occupational pension scheme justify a restrictive implementation of the principle of equal treatment. But they must ensure the principle of equal treatment is not restricted unnecessarily.

C-408/92 and C-28/93, Smith v Avdel Systems and Van den Akker v Stichting Shell Pensioenfonds, opinion AG Van Gerven, 4 May 1994.

BRICK COURT CHAMBERS, BRUSSELS

Robert Rice on disarray in UK competition policy after a pro-industry shift by Michael Heseltine

Watchdog barks but the MMC moves on

Recent inquiry reports from the Monopoly and Mergers Commission point to a significant shift in UK competition policy. The MMC has adopted a pro-industry approach which threatens a rift with the Office of Fair Trading, the competition watchdog.

The change in policy was inspired by Mr Michael Heseltine, trade and industry secretary. Competition officials and other advocates of a stricter policy believe the Department of Trade and Industry and the MMC have relaxed policy to help create strong UK champions capable of competing in global markets.

The growing frustration of competition officials and consumer organisations is echoed at Westminster, where influential backbenchers led by Mr John Watts MP, chairman of the Commons Treasury Committee, have set up a lobby group, the Competitive Forum, to press for tougher consumer-oriented competition policy and reform of the MMC.

When he took over at the DTI, Mr Heseltine signalled his preference for industrial over competition policy. His long-awaited competitiveness white paper, due next week, should confirm that preference.

Mr Graeme Odgers, the businessman who took over as chairman of the MMC a year ago, appears to share his views. Last week he said he was "four-square" with Mr Heseltine on privatisation, competitiveness and deregulation.

Since his arrival at the MMC, Mr Odgers has also tried to instill a consistency of approach by encouraging a collegiate atmosphere among the Commission's 35 members. The result, say critics, is an increasingly doctrinaire style which places the interests of firms under investigation ahead of those of the public and consumers.

This shift appears to be causing alarm at the OFT. Under Sir Bryan Carsberg, director general of fair trading, the OFT has taken a strongly consumerist approach to competition policy.

Sir Bryan gives the impression that he believes markets should be free of any anti-competitive restraints unless they can be shown to benefit the consumer. He has made a number of referrals to the MMC recently, among others on fine fragrances and ice cream, which demonstrate his particular concern with vertical restraints (those affecting the chain of supply to the marketplace), such as measures tying in retailers to suppliers.

But the MMC under Mr Odgers appears to take the view that that vertical restraints and anti-competitive practices must clearly damage the consumer interest before it will interfere in an industry.

Companies that have huilt up competitive advantage should be allowed to profit from their investment, innovation and enterprise, he said last week. This increasingly laisser faire approach by the commission puts it on a direct collision course with the OFT.

The clearest evidence of the shift in competition policy comes from recent monopoly inquiry reports. Some competition lawyers and economists trace the change back to the report in March 1989 on the supply of beer, when robust recommendations made by the MMC aimed at weakening the control of the brewers over pubs were rejected by the government following intense lobbying by the industry.

Since then, critics say, the MMC has taken a much less interventionist approach and shown far too much respect for the views of the firms under investigation, an approach reinforced by the arrival of Mr Heseltine at the DTI and Mr Odgers at the MMC.

The pattern began with the 1992 report on the supply of new motor cars, criticised by consumer groups for relying too heavily on manufacturer's own survey data and consumer satisfaction indices to establish that there was little wrong with the present system of car dealerships and after-sales service.

The MMC again found itself under attack in November last year over its report on fine fragrances which concluded "snob value" – high prices and exclusivity – were more important to consumers than value for money, so allowing leading perfume houses to continue refusing supplies to cut-price retailers.

That was followed in March by the ice cream report which found that, although the three leading manufacturers had more than 90 per cent of the market for wrapped ice creams, the system of freezer exclusivity – providing free freezer cabinets to shops on condition they are not used to stock rival suppliers' ice cream – did not limit consumer choice by keeping rival products out of smaller shops.

The unease at these reports should be underlined next month when the report on recorded-music is expected to clear the record industry of acting together to keep the price of compact discs in Britain artificially high.

Michael Heseltine (top left) and Graeme Odgers of the MMC (bottom left) are on a collision course with Sir Bryan Carsberg (right) and his OFT

There have been additional reports on mortgage valuations, newspaper supply, television broadcasting services and animal waste – all of which have drawn criticism for producing either half-hearted or unworkahle recommendations to remedy adverse findings.

Mr Stephen Locke, the Consumers' Association director of policy, says that at the heart of these reports seems to be a confusion between the interests of industry in general and the interests of existing companies. But there is no guarantee, he says, that what existing companies want will necessarily be in the interests of the productive sector of the economy.

Mr Bill Bishop of Lexecon, the economic consultants, says you only have to contrast the beer report with the recent ice cream report to see the change of approach. On beer, the commission found the system of tied public houses did damage the public interest. It rejected the industry's argument that, if consumers did not like the choice of beer in one pub, they could go to another. But on ice cream it reached the opposite conclusion.

Mr Derek Ridyard, associate director of National Economic Research Associates, says the dispute is really about the extent to which one supplier should be obliged to give competitors a leg-up in the market.

Even in the case of ice cream there were perfectly sound economic arguments for saying that Unilever had taken the initiative and developed the market and invested in freezer cabinets, and that all Mars had to do to compete was take the same risks. There was a feeling that Mars was simply trying to use the competition laws as a short cut, he says.

Mr Ridyard believes that, if there has been a change in approach, then it has come from the OFT which has become more hawkish on vertical restraints under Sir Bryan. He has referred areas such as recorded music and ice cream, which had been looked at and rejected for referral by his predecessor, Sir Gordon Borrie.

Mr Christopher Bright, a partner in City solicitors Linklaters & Paines, says it is easy to understand the frustration felt at the OFT at these developments. But he believes the OFT's main problems lie with the DTI rather than the MMC.

Twice in February last year Mr Heseltine rejected Sir Bryan's advice to refer mergers to the MMC. The first case concerned the acquisition by GEC of the Philips infra-red components business. The second concerned the hostile bid by Airtours for Owners Abroad. Mr Heseltine considered the issues raised did not justify referral.

These actions were not exceptional. Other trade secretaries have gone against the advice of the director general – in all in 11 cases over 20 years, says Mr Bright. But these instances suggested a swing away from the approach of former trade secretaries such as the late Mr Nicholas Ridley and Mr Peter Lilley – one of "if in doubt, refer".

Further evidence of tension between the DTI and the OFT came in February this year when Mr Heseltine ordered Sir Bryan to stop his investigation into bus services on the Isle of Arran. It was the first time a trade secretary had ever used his powers to overrule a director general in that way.

But the real problem for the OFT is that the DTI seems to have completely lost interest in competition policy. Merger referrals are at an all-time low. Only three mergers have been referred by Mr Heseltine to the MMC in the past 12 months. When the MMC pnblishes its recorded music report next month there will be only two monopoly inquiries on the go. The DTI is also dragging its heels on reform of the law on restrictive practices and abuses of market power.

These developments are not lost on UK companies, says Mr Bright. No wonder OFT officials are said to be concerned at recent events.

The singular art of success

William Packer reviews the work of Avigdor Arikha and other refreshingly non-avant-garde artists

So much, in any successful artist's career, is a matter of luck. Talent will out, we say, to which the reply can only be: up to a point, Lord Copper. It is not to begrudge tha Israeli painter, Avigdor Arikha, his long and continuing success, to take his current exhibition to make the point. Now 65, he has been showing regularly and consistently around the world – Tel Aviv, London, Zurich, Stockholm, Paris, New York, Amsterdam, Tokyo, Los Angeles, the Venice and Sao Paulo biennales, definitive group exhibitions from Washington to Vienna – for more than 30 years. Good luck to him.

It is only when we consider the actual nature of his work that we come in for the surprise. For here is no darling of the avant-garde, no conceptualist or latter-day surrealist, no neo-dada, post-Duchampian, thought-provoking poseur. He is nothing more, nothing less, than a painter of unexceptionable portraits, figures and still-life, with a delicate touch and a quick eye for the charming gesture and the intimate detail. He is, in short, a somewhat old-fashioned and conventional figurative painter and none the worse for that.

Who would then say that representation is old hat – Arikha paints old hats rather well: and who can begin to account for such critical success? How is it that he should be picked out for such shows as "European Painting in the 70s" (Los Angeles 1974), or "Art as Art (Venice Biennale 1982), or "Raphael and French Art" (Paris 1983)? And how does he come to be painting the portrait of the keeper of the modern collections at the Tate?

It is not that Arikha is no good. He is a very clever painter, with the gift of being able to make the simplest line or smudge of paint, or twist and scrape of the brush, register as the true and lively intended image. His prints are especially impressive in this way, with tha subtlest effects achieved by the simplest means. His chief fault is only that he seems in the newer work a shade complacent in his cleverness, notably in his drawings and paintings of the figure and the nude, which proclaim an accuracy and attention of observation which are no longer there.

He remains an interesting painter, but the more general and serious point is that even here in England, most especially here in England, there is no end of figurative painters at the very least as interesting in their work as he, and certainly no less competent. We have only to go round any summer show of the Royal Academy, or the prize exhibition of the Portrait Award at the National Portrait Gallery, both of them coming up next month, to be presented with the evidence. Yet who among those painters of the figure or the landscape is ever likely to be picked out for any British Council tour abroad, or international survey at the Grand Palais or Venice Biennale, or asked to paint a portrait of the deputy director of the Tate?

The annual show of the Royal Society of Portrait Painters is another case in point. It may have as always rather more than its fair share of jokes in doubtful taste, but in the last few years, notably under a recent president, David Poole, it has revived remarkably from its former moribund state. Younger members have been recruited from the Portrait Award – Jeff Stultiens, a former winner, now indeed the Society's secretary – and the membership generally stiffened.

Many of the works on show are very good by any contemporary measure. Howard Morgan, the current star, may continue to disappoint: his ambition is matched as yet only by his self-indulgence. If only he would give as much attention to drawing as to overall effect, and yet his drawings themselves betray the inadequacy. Directly alongside, three portraits by Michael Reynolds offer a merciless contrast, one, of a seated woman in a white jumper, as fine a portrait and as interesting a new painting as any we might see in a year. Its water-colour study is exquisite.

Thomas Coates, hung at the other end of the exhibition, is another hero, an artist of true flair whose energy and variousness sometimes tend to obscure his underlying distinction. He is a remarkable draughtsman. I only take exception to an occasional eccentricity in his choice of subject. Were he to come down within the speed limit, more might be able to judge him at his true worth, as he flashes past. Daphne Todd, Hans Schwarz, John Ward, Tilly Willis and Martin Yeoman are among the others whose work stands out. John Boyd and Susan Ryder successfully take on the conversation piece, that most testing of genres.

And do we find a Reynolds or Coates among the recent acquisitions at the Tate, or on tour with an Arts Council selection, or included in a survey of current painting at the Hayward Gallery? I only ask.

Avigdor Arikha: Marlborough Fine Art, 6 Albemarle Street W1, until June 4. Royal Society of Portrait Painters Annual Exhibition; The Mall Galleries, The Mall SW1, until May 30.

'Self Portrait in Jeans' by Avigdor Arikha

Opera in Berlin/**Andrew Clark**

Dreyfus: a grim centenary

With racist attacks again making news across Europe, the subject is both topical and salutary

The chorus of Berlin's Deutsche Oper screams "Filthy Jew! Bastard! Yid! Pig! Death to the Traitor! Death to the Jew!". A foyer exhibition of poster-portraits includes a caricature of a Jew's head, depicting him as greedy, dishonest and parasitical. In the city where the Nazis plotted the final solution, no-one raises an eyebrow.

But this is not another example of German anti-Semitism. It is documentary evidence of the Dreyfus Affair, which divided French society 100 years ago and set the racist tone for 20th century Europe. To mark the Dreyfus centenary, the Deutsche Oper has staged the world premiere of *Dreyfus – The Affair*, with music by the Swiss composer Jost Meier and a libretto by George Whyte, e Hungarian-born Jew who has master-minded a series of centenary events.

In addition to the opera and exhibition, there will be a Dreyfus ballet with a new score by Schnittke and a musical satire using anti-Semitic songs of the period, orchestrated by Berio and performed by Ute Lemper. All these will come together in Basle in October.

Alfred Dreyfus (1859-1935) was a Jewish officer in the French army. In 1894 he was falsely accused of spying for Germany, court-martialled and exiled. Despite evidence proving his innocence, a retrial failed to clear his name. After a campaign by his wife and influential supporters, culminating in Emile Zola's celebrated pamphlet "J'accuse", Dreyfus was released and eventually rehabilitated.

The case uncovered a violent strain of anti-Semitism in France. Half a century later, Dreyfus's grand-daughter was among the French Jews sent to die at Auschwitz. In 1988, Dreyfus's grave in Montparnasse was desecrated. In a country renowned for its reluctance to delve into the more uncomfortable aspects of its past, the case still touches a raw nerve. It is to Germany's credit, and France's shame, that Berlin has kick-started the Dreyfus centenary.

With racist attacks again making news across Europe, the Dreyfus Affair is both topical and salutary. The challenge facing the authors of the new opera was to turn a tale of political and moral significance into a successful work of art. The mere fact that an anti-racist opera was being premiered in Berlin was enough to guarantee the approval of the capacity first-night audience, which included local dignitaries, Jewish leaders and members of the Dreyfus family. By the second performance, the euphoria had subsided, and the work's flaws were all too clear.

The libretto, based on contemporary sources and making use of nightmarish flashbacks, offers a resumé of the Dreyfus case – public humiliation, torture and solitary confinement, an appeal to the Pope, the discovery of the real spy, establishment cover-up, re-trial and release.

In an unbroken span of 90 minutes, such prejudice and personal suffering should hit the audience like a sledgehammer. But Dreyfus is never allowed to develop a personality: he remains typecast as a symbol of injustice, his wife Lucie a symbol of resistance. Zola's "J'accuse" aria is frustratingly repetitive. Minor characters like the traitor Esterhazy are cardboard baddies. Far from seething with dramatic contrast, colour and tragedy, the opera fails to rise above the level of righteous polemic.

For this, Whyte, Meier and the stage director, Torsten Fischer, bear equal responsibility. Whyte, most of whose family were gassed by the Nazis, appears to have been too close to his subject. The opera was his baby, the product of years of struggle. He has not taken the leap of imagination which transforms human experience into art: his material is more the stuff of musical documentary.

Meier's pale Bergian modernism wears less well than his previous operas – the best of which, *Augustin* (1988), deserves a wide hearing. The *chansons* and dances of the Moulin Rouge scene have the right sort of brash vulgarity, but the most telling moments are when Meier refines the music down to the barest thread. The overall impression is of competence rather than inspiration.

Fischer's production, designed by Andreas Reinhardt, unfolded on a triangular platform and made theatrical use of paper walls. What it lacked was a sense of place, of genuine human feeling. Paul Frey's Dreyfus came across as a rather ordinary chap. Aimee Willis was the spirited Lucie, Artur Korn a shadowy Zola. A large supporting cast and chorus went through the motions of rage and outrage. The performance I heard was adequately conducted by the composer, stepping in for an indisposed Christopher Keene.

Dostoyevsky's 'The Devils' brought to life

Alastair Macaulay hails the Maly Theatre's three-part production in Glasgow

The climax of the Maly Drama Theatre's current tour has been its three-week residence in Glasgow. Only in Glasgow, as part of its annual Mayfest splurge of artistic activity, has this Russian company been able to present all eight plays in its current British repertory: four at the Citizens Theatre, four at the Tramway. This is only just, for it is the Tramway's programme director, Neil Wallace, who has worked hardest to plan the Maly tour. And it is only at the Tramway that the greatest Maly event of all has occurred – its three-part, all-day production of Dostoyevsky's *The Devils*.

To carry superlatives further, I add that this is the most marvellous theatrical event I have yet seen this year. It is also the first adaptation of a novel I have seen that can be compared with the RSC's 1980 *Nicholas Nickleby*. The scenery – by Eduard Kochergin – is wonderfully effective, indeed eloquent, but what carries all three parts of *The Devils* is the acting. Not only are Dostoyevaky's psychologically extraordinary studies brought onto the stage, but also the tremendous way in which each leading character is shown in a completely fresh psychological light in scene upon scene.

Thus, the first time we see Piotr Verkhovskensky (actor: Sergei Bekhterev), at Mrs Stavrogin's house, we see him as a socially awkward blabbermouth, newly returned home, who tries, fairly disastrously, to ingratiate himself. Scene by scene, however, he emerges as a horrifying nihilist, a pathetic hero-worshipper, a heartless planner of murders. And we are still seeing new sides of him in the trilogy's long penultimate scene, during which he engages in half-ludicrous religious and epistemological debate with Kirillov, often thereby delaying his own purpose, which is to egg Kirillov on into committing suicide.

This kind of plasticity of characterisation originates with the genius of Dostoyevsky, but it is heartstopping to see it achieved in the flesh onstage. I was amazed at the robust diablerie – dangerous, colossal, warm, vulnerable, by turns – that Igor Ivanov (so different in his lower-key role in *Stars in the Morning Sky*) brought to the role of Lebiadkin. This is the kind of towering force you can find in records, photos and accounts of Chaliapin; yet not only have I never really encountered it onstage before, but Lebiadkin is eventually only a minor role.

Fully as fine are the performances of Piotr Semak as Stavrogin (the work's most heroic and self-doomed character), Sergei Vlasov as Shatov (whose death is the most affecting of all because his life has been irradiated by the most hope), and Sergei Kuryshev as Kirillov (whose mad obsession with self-extinction is seen as noble, funny, intellectual, pointless, vain by turns).

It is astonishing that acting in Russian can be so enthralling to non-Russian-speakers. *The Devils* makes one grateful for surtitles, and impatient of them too; they are so needed and helpful amid a complex plot, yet they are also so inadequate – and, worst, they take one's eyes off the stage. The Maly actors are performers you want to watch at all times; I would pay money to watch these actors in these roles simply *listening* to each other. Yet this is not particularly "physical" theatre. These actor make Russian sound as beautiful as great singers do; and their vocal eloquence catches character, emotion, mood, in astonishingly natural abundance.

The staging is by the Maly's director, Lev Dodin. Praise for the acting is also praise for him, but I also praise the brilliant use of silent imagery (such as the twice-seen view of a young girl slowly climbing a ladder – which in due course makes alarming sense) and various sound effects (such as the distant drumming that so excitingly catches the pounding of Stavrogin's heart during his great confession). I have only space to skim the surface of this enthralling production. *The Devils* must, must, be brought back to Britain, to other cities. Lucky Glasgow.

The Maly Drama Theatre tours to Newcastle this week and to Nottingham next week.

Concert/**John Allison**

Mahler's Sixth

A weekend at the Barbican framed by illuminating accounts of music from the early years of our century – Friday brought the first UK performance of Rimsky-Korsakov's *Kashchey the Immortal* (1902) – ended with Mahler's Sixth Symphony (1903-5), given on Sunday by the London Symphony Orchestra under Michael Tilson Thomas.

The LSO and its principal conductor embark on a complete cycle of Mahler symphonies in the autumn as part of the orchestra's 90th birthday celebrations, and this concert provided both a tantalising foretaste of that series and a welcome opportunity to hear one of the less frequently performed works.

The Sixth Symphony, a cornerstone of modern orchestral music, was once regarded as "difficult"; no British orchestra played it until 1950. Most of Mahler's symphonies end affirmatively, but the life-and-death struggle of the Sixth ends in catastrophe. With its atmosphere of unreal, almost expressionist fantasy, it is a work one stands back from, and Tilson Thomas was persuasive in drawing the audience in.

Tilson Thomas conducted with his characteristic all-out intensity, favouring fast tempos and lush orchestral sound. The performance was unrelenting, but no emotions were lost to speed. The Andante gained in concentration, and brought forth a stream of lustrous playing. The opening march had grim power and bite, the "Alma" theme could hardly have been more passionate. Indeed, the LSO excelled itself with playing of great beauty and virtuosity.

This was e performance that left very few reservations. But although Tilson Thomas caught the heaviness the composer directs in the Scherzo (placed second here), the movement sounded too deliberate. It lost momentum, and consequently some of its horror.

Perhaps the Barbican Hall acoustics were to blame, but at every appearance the cowbells clattered intrusively, instead of providing a hazy echo of Alpine slopes.

Overall, though, Tilson Thomas welded this gigantic work together impressively. His approach is at once emotional and clear-headed, qualities Mahler conductors require in equal measure.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: Sergiu Celibidache conducts Munich Philharmonic Orchestra in Bruckner's Fourth Symphony. Thurs: Oliver Knussen conducts Hague Philharmonic Orchestra in works by Messiaen, with soprano Lucy Shelton. Sat, next Mon and Wed: Paul Freeman conducts Berlin Symphony Orchestra in a Beethoven cycle, with piano soloist Derek Han. Sun: Buenos Aires Philharmonic Orchestra plays Gianno, Sibelius and Mendelssohn, with violin soloist Saskia Viersen
(24-hour information service 020-675 4411 ticket reservations 020-671 8345)
Beurs van Berlage Tomorrow, Thurs: Istvan Parkanyi directs Netherlands Chamber Orchestra in works by Vanhal, Haydn, Dittersdorf and Mozart (020-627 0466)
Muziektheater Thurs, Sun: Netherlands Opera presents Peter Schat's new work Symposion, conducted by Hans Vonk and staged by Ian Strasfogel (020-625 5455)

BRUSSELS

Palais des Beaux Arts Tonight (Conservatoire): Orlando Quartet plays string quartets by Beethoven, Brahms and Isang Yun. Thurs: Eri Klas conducts Belgian National Orchestra in works by Haydn, Mozart, Denisov and Bizet, with oboe soloist Heinz Holliger (02-507 8200)
Lunatheater Tomorrow, Thurs, Fri, Sat: Belgian experimental choreographer Anne Teresa De Keersmaeker and her dance group Rosas present a three-part programme entitled Kinok, including De Keersmaeker's latest creation set to music by Thierry de Mey (02-218 5959/02-218 1211)

GENEVA

Victoria Hall Tomorrow, Fri: Armin Jordan conducts Orchestre de la Suisse Romande in works by Bach-Webern, Berg and Schumann, with violin soloist Frank Peter Zimmermann (022-311 2511). Thurs: Jacek Kaspszyk conducts Geneva Chamber Orchestra in a Beethoven programme (022-310 9193)
Théâtre de Carouge Corneille's Le Cid, directed by Simon Eine, runs daily except Mon till June 7 (022-343 4343)
Comédie Eugene Labiche's play Un chapeau de paille d'Italie runs daily except Sat, Sun and Mon till May 28 (022-320 5001)

GHENT

de Vlaamse Opera Fri, Sun afternoon, next Fri: Stefan Soltesz conducts Willy Decker's production of Billy Budd, with cast headed by Michael Kraus, Nigel Robson and Gidon Saks (09-225 2425)

SAINT LOUIS

Opera Theater of Saint Louis, one of the world's most pleasurable opera festivals, opens its new season on Sat with the first US performance of Leonard Bernstein's revised version of Candide. Stephen Lord conducts a staging by Colin Graham. This year's other productions are Falstaff conducted by Andrew Litton (May 26), Iphigénie en Tauride starring Patricia Racette (June 5) and a revival of Conrad Susa's 1975 opera Black River (June 16). All performances take place at the Loretto-Hilton Center (314-961 0171)

SALBURG

The Chicago Symphony Orchestra returns to Salzburg to give three concerts over Whit weekend (May 21-23). The opening programme of Brahms and Stravinsky is conducted by Daniel Barenboim. Georg Solti conducts Beethoven and Stravinsky on the following two evenings (0662-841307)

VIENNA

CONCERTS
Musikverein Tonight: Carlo Maria Giulini conducts Vienna Philharmonic Orchestra in works by Beethoven. Tomorrow: Christian Altenburger, Nobuko Imai, Truls Mork and Bruno Canino play chamber music by Mendelssohn, Brahms and others. Thurs: Pinchas Steinberg conducts Austrian Radio Symphony Orchestra in Haydn, Richard Strauss and Musorgsky. Fri, Sat: Iona Brown directs Academy of St Martin in the Fields. Next Tues: Sherrill Milnes song recital (505 8190)
Konzerthaus Tonight, tomorrow: Janos Starker cello recital (712 1211)

OPERA
Staatsoper Tomorrow: I Puritani with Edita Gruberova, Mario Giordani and Dmitri Hvorostovsky. Thurs: Der Rosenkavalier with Gwyneth Jones, Anne Sofie von Otter and Kurt Moll. Fri: Prokofiev's ballet Romeo and Juliet. Sat: Die Zauberflöte. Sun and next Wed: Don Giovanni with James Morris and Marie McLaughlin. Next Mon and Fri: Andrea Chenier with Eva Marton, Giuseppe Giacomini and Piero Cappuccilli. June 3: new production of Hindemith's Cardillac. June 5, 12, 18, 26: Wagner's Ring. June 21, 24, 28: Riccardi Muti conducts Le nozze di Figaro, with Ruggero Raimondi and Bryn Terfel (51444 2955)
Theater an der Wien May 26, 28, 30: Claudio Abbado conducts revival of Jonathan Miller's 1991 Vienna Festival production of Le nozze di Figaro, with Ruggero Raimondi, Lucio Gallo, Cecilia Gasdia and Barbara Bonney (586 1676)

THEATRE
Highlights of the coming fortnight are two Ibsen productions – The Wild Duck from Hamburg's Thalia Theater directed by Jürgen Flimm (tomorrow, Thurs, Fri, Sat at Ronacher) and Hedda Gabler from Berlin's Schaubühne directed by Andrea Breth (May 22-25 at Volkstheater). Both productions are guests of the Vienna Festival (586 1676). A third Ibsen production, Peer Gynt directed by Claus Peymann, is in repertory at the Burgtheater (51444 2959)

WASHINGTON

DANCE/MUSIC
- San Francisco Ballet opens a week of performances tonight at Kennedy Center Opera House. Repertory includes choreographies by Tomasson and Balanchine (202-467 4600)
- Mikhail Baryshnikov's White Oak Dance Project is in residence at Warner Theatre from tomorrow till Sun, with choreographies by Mark Morris, Jerome Robbins, Twyla Tharp and Merce Cunningham (202-432-seat)
- James DePriest conducts National Symphony Orchestra tonight in a Beethoven programme at Kennedy Center Concert Hall. Pinchas Zukerman is conductor and violin soloist in a Dvorak programme on Thurs, Fri, Sat and next Tues (202-467 4600)

THEATRE
- The Winter's Tale: Britain's Royal Shakespeare Company is in the final week of its residency at Eisenhower Theater (202-467 4600)
- A Room of One's Own: Eileen Atkins in her acclaimed portrait of Virginia Woolf. Till June 19 at Arena Stage, Kreeger Theater (202-488 3300)
- The Baltimore Waltz: the 1992 Obie Award winner by Paula Vogel takes us on a grand tour of Europe with an ailing man and his resourceful sister. Till June 12 at Studio Theater (202-332 3300)
- The Revengers Comédies: Alan Ayckbourn's two-part comedy, directed by Douglas Wager. Till June 12 at Arena Stage (202-488 3300)
- Ghosts: Ibsen's play about social and religious hypocrisy, directed by Irene Lewis. Till June 6 at Center Stage (410-685 3200)
- Hot Mikado: David Bell's rousing remake of the classic G&S operetta is at Ford's Theater (202-347 4833)
- Hot'n'Cole: a Cole Porter musical revue comprising more than 50 great songs by the master of American popular music. Till May 29 at Olney Theater (301-924 3400)

ZURICH

Opernhaus Tomorrow: Lamberto Gardelli conducts final performance this season of Andrei Serban's new production of Adriana Lecouvreur, with Mara Zampieri and Neil Shicoff. Thurs: Fedora with Agnes Baltsa and Luis Lima. Fri: choreographies by Bienert, Ek and Van Manen. Sat: Nikolaus Harnoncourt conducts Jürgen Flimm's production of Fidelio, with Gabriela Benackova and Peter Seiffert. May 28: Harnoncourt conducts first night of Helmut Lohner's new production of Offenbach's La Belle Hélène (01-262 0909)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV
(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

The economic upturn in Australia may prove difficult to sustain, writes **Nikki Tait**

Growth is not the only fruit

It is a long time since Australia called itself "the lucky country". After the post-1987 crashes of debt-laden entrepreneurs, the country has been struggling in the 1990s to cope with corporate restructuring to meet the challenge of lower tariff barriers, double-digit unemployment and low commodity prices.

But in his annual budget speech recently, Mr Ralph Willis, the self-effacing treasurer, not only invoked the old 1960s label – a reference to Australia's vast resources, spread around a small population – but suggested that the nation was about to go one better.

He talked of annual growth rates at, or above, 4 per cent for the next four years; of continuing low inflation; and of the budget deficit – A$13.6bn (£6.5bn) in the current year – falling away to nothing by the late-1990s.

All this, he suggested, was the product of a recharged aconomy and could be achieved with few government initiatives. Assets, such as the government's remaining stake to the Qantas airline, would be sold this year, raising A$2.5bn. But there would be no increases in taxes or in the Medicare levy, Australia's national health surcharge.

The biggest new expenditure item – a four-year jobs programme, designed to tackle an unemployment rate of 10.1 per cent and scheduled to cost more than A$1bn in 1994-95 – would be funded by higher tax receipts resulting from the upturn in economic activity.

"Australia," he concluded, in a rare flash of oratorical style, "has probably never been better placed to achieve a prolonged period of high economic and employment growth."

Australians, not given to enthusiastic credulity, blinked. "A gamble on growth", decided the newspapers. "The budget's deficit figures and growth forecast are a total fudge," declared Mr John Hewson, leader of the coalition opposition.

So who is right – a mild-mannered treasurer, renowned for caution, or a wary public?

In the post-budget round of seminars and speeches, Mr Willis has been anxious to spell out how unexceptional his predictions are. "I'm not a gambling man and never have been," be told Sydney businessmen. "The growth forecasts were a realistic appraisal, provided we continue to play our cards right."

He pointed out that the Australian economy was already growing at an annual rate of 4 per cent, and that the nation had sustained growth rates of more than 4.5 per cent for several years in the 1980s.

However, this upturn in economic activity is very recent, and many people are still trying to understand it. The 4 per cent rise in gross domestic product in 1993 was largely due to a spurt in the final quarter, when growth was 1.7 per cent. Even in the cities, recessionary fears are only just beginning to fade. While chic Sydney restaurants are well-attended, they are not packed. As one Melbourne-based economist put it: "This doesn't feel like a boom."

Even Mr Willis admits that it will take a strong revival to business investment to push the growth rate up to the forecast of 4.5 per cent in 1994-95. The government's own figures predict that business investment will have grown by a miserly 1 per cent in the year to the end of June, yet Mr Willis is talking of a 14.5 per cent rise next fiscal year.

Some observers claim this is unrealistic. "It's ridiculous," says Mr Stephen Kates, economist for the Australian Chamber of Commerce and Industry. Recent surveys of business confidence by the chamber have shown improvements in sentiment, but only to levels that are "in general, satisfactory". Mr Kates worries that real interest rates (adjusted for inflation) are rising, and that many companies face labour cost-related pressures – for example, on the superannuation front, as responsibility for pension funding is shifted to the private sector. In addition, profits growth in small and medium-sized companies may be lagging behind that in the quoted corporate sector.

Critics also cite a tendency by Australian companies to invest offshore – notably in Asia – and to continue to search for efficiency gains, rather than invest in new capacity.

But there are more optimistic voices. Mr Paul Simons, chairman of Woolworths, one of the nation's largest retailers, describes the 14.5 per cent uplift in investment as "not unrealistic". His company's capital expenditure has increased from A$150m in the early 1990s to A$200m in 1994, and will head towards A$250m next year. "I don't think we're unrepresentative . . . There comes a time when you must catch up," he comments.

Mr Bill Shields, chief economist at Macquarie Bank, the Sydney-based investment bank, points out the turnround predicted by Mr Willis is "not out of synch" with experience in the mid-1970s and 1980s.

If business investment is one potential obstacle to the treasurer's objectives, a second question mark hangs over the current account. In the past, Australia has tended to lurch from boom to bust, and part of the problem has stemmed from instability on the balance of payments front, as imports have shot up. This could be a worry for the government once again: if business investment surges too late, and all at once, imports (of capital equipment and the like) are likely to get sucked in, and the balance of payments position could go badly out of kilter.

The test will be whether Australia's efforts to create a competitive, internationally focused manufacturing sector really have developed a stronger export base.

Third, there is the question of whether low inflation can be maintained, particularly if labour costs rise. For the past 10 years, Australia has had a centralised "wages policy", thanks to a series of accords between the ruling Labor government and the unions. The current accord is still in place, but government efforts to encourage enterprise bargaining – that is, wage agreements struck at individual company level – mean an increasing number of workers fall outside this centralised framework.

Whila decentralised wage agreements can help to contain labour cost inflation, because ailing or inefficient industries are not obliged to pay a centrally agreed wage rise, it is unclear whether workers will be more aggressive in their demands if prosperous companies start to award more substantial pay increases.

At the end of the day, few commentators claim that the treasurer is wrong, just that his scenario makes crucial assumptions. If the economy fails to meet growth expectations, perhaps because business investment is sluggish, Mr Willis's strategy would go awry. In that case, the government's deficit reduction target would be met only through tax increases or fairly big cuts in spending. For political reasons, the former is more likely – and that would not be so lucky.

Joe Rogaly

The young pretender

This is getting dangerous. If Mr Tony Blair is chosen to succeed Mr John Smith, we shall have to consider voting Labour. The last time I did that was in 1964, or it could have been 1966. Those days are now long gone. It is as if we have been beamed up to a different planet, with Labour or a large section of it left behind. The party may show by its selection of a new leader that it has at last caught np, that it understands how different our polity has become. If so, British public life will be transformed. We would see a break in the gloom that began to descend after April 1988, when Thatcherism peaked out.

Did I say gloom? Look around. The electorate is trapped. We either continue with a moribund Tory government, or take a chance with a party many of ns mistrust. Only something completely fresh, like a totally remodelled Labour party, could break such an impasse. Voters would enjoy the forgotten luxury of real choice. A majority might decide that the kindest way to treat the Conservatives would be to put them out to grass for a season or two. There would be little fear, as there was in April 1992, of Labour atavism.

The people's party might even win an overall working majority, although I would not bet on it. Just as likely, many who might have voted Liberal Democrat in 1992 but were deterred by the apprehension that that would lead to a Lab-Lib coalition will not be so put off in 1996 or 1997. Either way, the opposition would take over. The reason is plain. It is best expressed in a wry remark attributed to an unnamed Conservative MP in one of the Sunday papers. People will vote for Mr Blair, said this phantom Tory, "without feeling they are voting for Labour".

The young pretender will thank nobody for recycling that observation. It expresses what his enemies consider to be his fatal flaw. The widespread endorsement of Mr Blair's candidacy by the newspapers is also said to be resented by Labour activists. The correct response is: grow up. If Labour insists on being led by whoever is most disliked by the media, it is not serious about victory. If it only feels comfortable with whoever most accurately personifies the traditions of a party four times rejected by the electorate, it will lose again. As Mr Kinnock would argue, the real sufferers would be the poor and the disadvantaged, the very people Labour exists to help.

People will vote for Tony Blair, said a phantom Conservative MP, 'without feeling that they are voting for Labour'

This is not to say that Mr Blair is superhuman. He may or may not prove to be a good leader. Whether or not he is chosen will tell us more about the Labour party than it does about him. Wa already know of several counts against him, not the least of which is that he is without experience of office. If he becomes leader, he will fall under a sharper spotlight than has yet played upon his boyish young features. If he has faults of personality, they will be revealed. If not, some of the tabloids will invent them. Short of changing its name, his programme for modernising the Labour party is about as radical as you could imagine. If he presses ahead with it he risks internal rows. If he holds back, he will be derided for his caution. Whatever he does, the fawning that has attended his putative candidacy is likely to be replaced, should he win the prize, by scepticism.

His advantage is the subconscious perception that his beliefs have their roots in Christianity, as did those of Mr Smith. Mr Gordon Brown, the alternative "modernist" contender for the Labour leadership, is seen in a different light. Ostensibly as reform-minded as Mr Blair, Mr Brown was in early life an intellectual of the now old-fashioned socialist left. Britain is more likely to restore social democracy in the name of Jesus Christ than of Karl Marx. To be fair, Marx would not recognise Mr Brown's contemporary utterances, which are similar though not identical to those of Mr Blair. Yet the shadow chancallor's intensity, his fierce attention to his anger, his apparent lack of self-confidence, work against him. If you voted for Mr Brown you would know that you were voting Labour.

Mr Blair's philosophy is expressed in a foreword to *Reclaiming the Ground*, essays published last year by Hodder and Stoughton and the Christian Socialist Movement. On the cover is a photograph of Mr John Smith, who contributed the key chapter. Mr Blair's few pages demonstrate how Labour could capture ground from the other parties. Try this: "There is right and wrong. There is good and bad. We all know this, of course, but it has become fashionable to be uncomfortable about such language." Tory minister after Tory minister has tripped up with "back to basics" of this sort, but in a Labour leader it could be an asset. Or try: Christianity . . . "is about the union between individual and community, the belief that we are not stranded in helpless isolation, but owe a duty both to others and to ourselves and are, in a profound sense, dependent on each other to succeed".

It is probable, given a long enough search, that you might find similar sentiments expressed by Mr Stephen Dorrell, financial secretary to the treasury, or even, at a stretch, Mr Kenneth Clarke, the chancellor. This does not make Mr Blair a closet Conservative. He remains attached to Labour principles. Anyone who thinks of voting Labour if he leads it should do so with his or her eyes open. This is no left-wing Tory, but a proponent of familiar elements of Labour thinking, spoken in language that should be acceptabla to southern opinion. In *Reclaiming the Ground* he affirms his belief to equality, adding "not that we are uniform in character or position, but on the contrary that despite our differences we are entitled to be treated equally, without regard to our wealth, race, gender or standing in society".

Those of us who can recall 1964 will remember not only the excitement that preceded the election of the then Mr Harold Wilson but also the long years of disillusionment that followed. Again, this speaks of the party more than the man. It was Labour, and the unions, that scuttled "In Place of Strife," the Wilson government's effort to bring order to labour relations. Mr Blair is likewise just a chap. He is a former barrister who has mastered a couple of prominent shadow cabinet briefs. A Labour party at ease with the philosophy he expresses would, however, be more than that. It would refresh British politics.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
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Venture capital provides lifeline to Czechs

From Mr Rudolf J Minar.

Sir, I share Christopher Parkes's opinion ("Old ways hamper new prosperity", May 9) that there is a dearth of finance capital available for new enterprises in the Czech Republic. But I would like to add that there is an alternative source – venture capital, which is beginning to, and should increasingly, play a meaningful role in financing growth for small businesses.

In the US and Europe equity capital is an important source of financing and nurturing new enterprises. According to the European Venture Capital Association Ecu4.2bn (£3.2bn) were raised and Ecu4.7bn were invested by European venture capital firms in 1992. Statistics about the impact of venture capital on economic growth are similarly impressive.

While foreign direct investment in the Czech Republic has slowed, private equity investment is taking off. Besides officially-sponsored programmes sncb as PHARE and the Czech American Enterprise Fund, at least half a dozen venture capital firms have sprouted up within the past year to provide financing and technical assistance to entrepreneurs. It is estimated that Ecu40m has been raised for investment by venture firms.

For the entrepreneur, venture investment has advantages over debt financing. Besides providing much-needed equity capital, it provides know-how. Venture capitalists work actively with the management of their portfolio companies, contributing their knowledge and experience to help the new businesses grow. They may also bring strategic partners or other links to foreign markets.

As your article pointed out, many Czechs are reluctant to give up control of their companies, especially to foreigners.

But according to recent surveys ("The emergence of private sector manufacturing in the former Czech and Slovak Federal Republic", World Bank Technical Paper 230, November 1993), most entrepreneurs want management and other training as much as they need capital.

The primary problem is one of edncation. Most entrepreneurs do not know about or understand venture capital. In the three years Catalyst has been placing private equity, we have spent as much time educating Czech companies about the capital and helping them develop management skills and systems as we have in arranging finance. Once entrepreneurs understand that equity participation brings training and technical assistance, they are more willing to surrender a stake in their enterprise.

The Czech Republic's rapid progress to a market economy stems from a dynamic private sector. Venture capital is ideally suited to provide the critical lifeline of capital needed by small and medium-sized companies that have jump-started the economy.

Rudolf J Minar,
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Emu goalposts are still firmly in place

From Mr Ian Harden.

Sir, Your report, "Emu fans ready to move the goalposts" (May 12), risks perpetuating a myth about the Maastricht convergence criteria. To understand tha treaty's provisions about public finance, it is necessary to appreciate that there are two relevant protocols, not one. The 60 per cent debt-to-GDP and 3 per cent deficit-to-GDP ratios are contained in the protocol on the excessive deficit procedure. The figures are "reference values". They form only part of the criteria to be applied. The treaty requires other factors to be taken into account by the Commission in deciding whether to invoke the excessive deficit procedure and by the council in determining whether there is an excessive deficit, if and when the procedure is invoked.

The second protocol is on the convergence criteria. As regards public finance, this protocol merely requires that a state shall not be the subject of a council decision that it has an excessive deficit. It is to this protocol that the judgment of the German Constitutional Court refers in pointing out that the treaty only allows the criteria to be changed by a unanimous council decision, thus ensuring a German right to veto any weakening of them.

This is clearly correct, but does not mean that the reference values have become rules. That would not be an interpretation of the treaty, but a rewriting of it. The treaty as it stands requires a highly complex exercise of judgment by the Commission and council and allows them a considerable margin of appreciation.

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Small price for quality

From Mr Richard Davison.

Sir, In his otherwise thorough analysis of pupil numbers in the independent sector ("Sums don't add up", 13 May), John Authers gives the impression thet overspending during the 1980s on "luxury items such as swimming pools and sports halls" was responsible for rising school fees.

What actually happened during the 1980s was that all educational costs, independent and state, went up.

Between 1984 and 1991, average fees at ISIS schools increased by 94 per cent in cash terms. Over the same period, unit costs in state schools rose by 36 per cent.

Teachers' salaries – which account for up to three-quarters of a school's costs – are the principal reason for this rise, which may have been less obvious to the taxpayer than to the indepeodent school parent.

If independent schools are to maintain a competitive advantage, they must employ high quality teachers. They must also invest in their plant.

Parents of boarders expect modern accommodation standards. All parents expect schools to be equipped for the rapidly changing demands of the modern curriculum.

And although only 42 per cent of independent schools have got one, I am sure that neither Iain Sproat, sports minister, nor John Patten would regard a sports hall as a "luxury Item".

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To 'Du' or not

From Mr Peter Frankel.

Sir, You reported that Chancellor Helmut Kohl called Prime Minister John Major by the familiar "Du" form during their conversations relayed via interpreters ("Major backs Kohl over EU links with eastern Europe", April 28). This appears friendly, but there is a danger that Mr Kohl's attitude might appear condescending.

I was born in Berlin, and I can say that I would never call another person "Du" unless I was a member of their family, had been et the same school, was a member of the sams club, or had received their express permission to use it. I do not think French President François Mitterrand would be happy if the German chancellor addressed him as "tu".

A Britisb prime minister must be treated with the respect he deserves, whatever the relationship, which cannot be measured through the voice of an interpreter.

Peter Frankel,
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Referendum on European constitution is required

From Mr Ernest Wistrich.

Sir, Joe Rogaly ("The right question time", May 10) supports the European Movement's call for a referendum on any major reforms that might emerge after the 1996 intergovernmental conference on political union. Yet he sees no need to examine the actual proposals on the grounds that Mr Major is unlikely to snpport them. This is a pity, for the European Movement's proposals are largely in line with the views of the European Parliament and those of the overwhelming majority of political leaders in other EU countries.

If we in Britain are not to remain totally isolated from our partners on the future of European integration, a reasoned debate on the subject in this country would be in our national interest.

The European Movement wants the European institutions to be more democratically accountable and thus narrow the yawning gap between them and the general public. That is why it recommends that all European legislation should be enacted in the open by exposing the secretive law-making of the Council of Ministers to public scrutiny and ensuring that all European laws and actions are subject to democratic approval by the European Parliament.

A written constitution, defining the rights and duties of European citizens and specifying which of these are to be exercised by the European institutions, is surely the best way to make the European Union comprehensible to the public.

Such a constitution could only become generally acceptable if it were approved by a referendum of all the European citizens.

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Revisionism on pensions

The conventional wisdom among pensions experts in the UK has long favoured final salary related occnpational pensions over schemes that peg benefits to sverage salary, or to the returns on the investment of fixed contributions to a fund. The Institute for Fiscal Studies (IFS) can thus expect a sceptical response from the pensions establishment to its latest report on pensions policy, which argues that tbe risk in defined contribution schemes has been overatated, and tbat the defined benefit system may be delivering a worse deal to a majority of people. Others will welcome the IFS's pioneering attempt to quantify the different returns to pensioners under defined benefit and defined contribution arrangements respectively . This, together with a readiness to question long-standing assumptions, is overdue.

The prejudice in favour of defined benefits has its roots in the experience of rising inflation in the 1960s and 1970s, when the link to final salary provided a measure of badly needed protection against rising prices, and employment patterns were relatively stable. Antipathy towards defined contribution pensions, meantime, was strengthened by the sxperience of stock market crashes in 1974 and 1987.

Renewed inflation

Today circumstances are vsry different. No one, admittedly, could afford to ignore the threat of renewed inflation for the purposes of tong-term pension planning. But the pattern of employment in the UK is no longer so heavily geared to large companies providing long-term stable employment. The financial markets are able to provide a wider array of instruments witb which to bedge against market volatility. And the political climate is more hostile to the paternalism that has been the driving force behind an entirely desirable build-up in private-sector occupational pensions.

In essence pensions are a form of insurance. The IFS authors make the important point that the two main forms of private pension provision insure against different things. Defined benefit plans, which take the form of a promise related to final pay, insure against uncertainty about capital market returns. Defined contrihution schemes, in contrast, insure against the risk of fluctuating earnings and the loss of jobs.

Using data from the 1988-89 UK retirement survey, and on a plausible set of assumptions, the authors conclude that three-fifths of the people in a sample of 3,500 would have enjoyed higher benefits in a defined contribution plan. A privileged minority of mainly better off, male, long-staying employees, they find, have been feather bedded by the majority.

Wider concerns

This is not particularly surprising, in that so-called early leavers are known to have made a substantial subsidy to long stayers because of inadequate inflation-proofing of deferred pensions. But the extent of the cross-subsidy appears greater than many had assumed. Can the legitimate requirement nf paternalistic employers to attract and retain good employees really justify such a hugely redistributive process, especially when there are wider policy concerns about the adverse impact of the cross-subsidy on labour mobility?

It is still possible to argue about the relative merits of the two systems in the light of different assumptions that could he made about inflation and investment returns in future. But in practice defined contribution schemes are growing rapidly because thsy match the requirements of today'a labour marks t better than the alternative. And even if the economic arguments are deemed inconclusive, subject to furtber research, the wider case for defined benefits is strong.

Sucb schemes are transparent and preclude cross-subsidy. They do not incorporate any incentive to sack older workers, whose pension rights become more expensive in defined benefit schemes as retirement approaches. They cannot be so easily milked by directors who bump up pre-retirement salaries at huge actuarial cost to the fund and thus to shareholders. More work needs to be done to find ways of reducing the capital market threat to the value of the pension on the date of retirement. But when City ingenuity provides a satisfactory answer to that problem, the government should give greater sncouragment to company-backed defined benefit plans.

IT's not a knockout

Reports that General Motors plans to sell its majority stake in Electronic Data Systems, its large computer services affiliate, suggest the world's biggest vehicle maker is not just seeking to raise badly needed cash, but may be abandoning what was once a mainstay of corporate strategy. As well as promising relief to its hard-pressed shareholders, GM's apparent rethink holds salutary lessons fnr managers of nther businesses wbo are tempted to view information technology as their competitive salvation.

Purchased for $2.5bn a decade ago when GM was flusb witb funds, EDS has proved a spectacularly profitable investment. However, it has not met GM's original goals. One was to matcb Japanese car manufacturers' crushing productivity sdvantage by using EDS'a computer wizardry to revolutionise GM's antiquated production facilities. Another was to provide a path for diversifying into fast-growing IT markets.

These hopes have been disappointed because the industrial logic was flawed. With hindsight, the acquisltion seems to have been motivated by a desire among GM's top managers to escape from, rather than tackle bead-on, a legacy of industrial decay. Dazzled by IT, a market they did not understand, they failed to see EDS for what it was. In reality, the company'a factory automation experience is minimal. Its success is based on processing large volumes of data efficiently for outside clients – notably the US government – and aggressive salesmanship. It is a business closer to the economics of the laundry than to rocket science.

Magic bullet

GM's recent gains in productivity and market share have been largely due to the pursuit of down-to-earth objectives. These include renewed emphasis on flexible working practices, quality, sourcing, product design and marketing. Such steps are indispensable to the company's recovery. The idea that massive investment in computers and robotics could avoid them was always suspect.

Yet faith in IT as a magic bullet lives on, in governments as well as businesses. The latest convert is the Clinton administration, which is backing a range of commercial high-technology projects in the belief that they will yield above-average economic and competitive benefits. But the belief is based on abaky evidence. An exhaustive recent study of manufacturing productivity by McKinsey, the management consultants, failed to unearth any company whicb had succeeded mainly because of superior high-technology.

Short-lived gain

That is not to belittle IT's importance to business. By rendering obsolete many middle-managemsnt functions, powsrful slectronic information systems have provided mucb impetus for the recent trend towards corporate "down-sizing". By linking tbe world's main financial centres, they have vastly accelerated capital mobility. And by tearing down barriers between computing, entertainment and telecommunications, they are revolutionising the delivery of media to homes and workplaces.

However, for individual companies, IT alone procures only short-lived competitive gain. That is true even in service industries, such as banking and retailing, which are its most intensive users. While IT has encouraged product innovations, notably in retail banking, these are usually easily copied by competitors. As a consequence, it has ceased to guarantee enduring advantage in financial markets and become simply a prerequisite of survival. In retailing, reliance on IT to generate market research data has helped some retailers challenge branded manufacturers' franchises. These gains, however, depended crucially on sustained investment in efficient distribution, supplier networks and just-in-time delivery systems.

To view IT as a means of erecting competitive barriers is erroneous. Its real impact is to level them and make it easier for new competitors to enter markets. Though it can enable the fleet-footed to draw maximum advantage from shrewd judgment, entrepraneurship, innovation and sound organisation, it cannot substitute for these qualities. Still less can it exonerate managers from the consequences of their past neglect.

The best lines of defence

Bernard Gray and **Bruce Clark** assess the political and commercial challenges facing Europe's arms industry

If the cold logic of commerce were the only factor, then the French foreign legion would be using bullets from Lancashire, and French shells would be whizzing across the British army's training ground on Salisbury plain.

Such a pooling of resources between munitions makers makes business sense. As tensions have eased after the cold war, almost every western country bas been quick to claim the peace dividend, and governments have trimmed defence budgets as a proportion of gross national product.

At least on paper, European countries are committed to the principle of pooling arms procurement efforts as companies grapple with declines in both domestic and foreign sales. Mr John Weston, chairman of British Aerospace defence, is confident that talks on collaboration between Royal Ordnance, the BAe subsidiary which makes bullets, and Giat of France will bear fruit.

But before this happens, both companies will have to satisfy a small caveat from the UK Ministry of Defence. If the UK has to use French bullets, then France has to use British ones. As a ministry official put it: "Any dependence must be mutual."

This lingering wariness between Europe's ancient nations means the continent's defence industry is not streamlining as fast as its counterpart in the US. As American groups rationalise and regroup, Europe's politicians and industrialists are still searching for ways to follow suit without sacrificing all their secrets and sovereignty.

The commercial rationale for consolidation is equally powerful on both sides of the Atlantic. Throughout the western world export sales are in decline. At constant 1991 prices, Britain, France and the US saw total arms exports fall from $25.7bn in 1987 to $14.4bn in 1991.

In the US, the response to this challenge has been rapid. The plunge in government arms purchases – to about $40bn next year from $120bn a decade earlier at constant 1993 prices – has already prompted an extensive restructuring in the industry. General Dynamics has sold its tactical aircraft business to Lockheed, its missiles operations to Hughes and its electronic systems to Carlyle. Most recently, Grumman was the target of a $2.2bn tug-of-love bid between Northrop and Martin Marietta, which Northrop won.

Compared with this hectic activity, rationalisation in Europe has been sluggish. Europe still produces three types of main battle tank, against one in the US. It is also designing three advanced fighters – the Eurofighter, the French Rafale and the Swedish Grippen, while the US is concentrating on one – the Lockheed/Boeing F-22.

The contrast has not gone unnoticed in Europe. Mr Louis Gallois, chairman of Aerospatiale, the state-owned French group, said in London recently: "Not without government intention and support, the American aerospace industry is completely restructuring. Ignoring merger control and anti-trust legislation, very profitable mammoth companies are being formed in almost all product categories."

Behind tbese comments lies a gnawing fear that economies of scale will enable US companies to launcb a price war long before Europe has had time to get its own corporate act together.

There are a few signs that Europe is starting to react. Dasa, the German aerospace company, announced a plan to cut 16,000 jobs last year; British Aerospace has been in negotiations for the past 18 months to merge its missile business with Matra of France; Aerospatiale is in similar talks with Dasa; the UK defence and automotive group GKN has bought the helicopter-maker, Westland.

Yet progress has been painfully slow, and there is little consensus on how European industry should rationalise.

Some, including Lord Weinstock, managing director of GEC, believe defence is essentially the business of individual countries, and that larger groupings will be formed within states rather than between them. For instance, Lord Weinstock says that GEC and BAe may eventually work together as joint prime contractors on projects or conceivably pool some defence interests.

Sir Colin Chandler, chief executive of the UK tank maker, Vickers, takes a difference view. He sees cross-border co-operation in weapons production as the most likely way forward: keeping separate the companies making particular products, but allowing for joint ventures and joint weapons development.

The vision of cross-border collaboration is shared by Sir David Lees, chairman of GKN, who says: "There is no other way forward. The pressures on stretched budgets are driving towards more collaborative programmes."

The most spectacular multinational project to date is Eurofighter. This £32bn bid by Britain, Germany, Italy and Spain to be in the vanguard of military aircraft technology has divided German opinion. Also in the pipeline are a $7bn project to build a new military transporter, the Future Large Aircraft (see chart); a Franco-German armoured car; and a frigate involving Britain, France and Italy.

As technology becomes more expensive, it may no longer be feasible for any European country to build a cutting-edge weapons platform alone. Co-operation therefore sounds appealing and politically prestigious. But grandiose plans for the future will not remove the need for painful decisions about current production. Building weapons in more than one country may make it easier to raise development capital, but it does not necessarily save money. Overheads and production facilities may be duplicated unless some countries are prepared to relinquish manufacturing.

Matra, for instance, has decided that collaboration on specific projects is not a sufficiently radical solution to Europe's cost-cutting problem. It argues that it needs to pool equity as well as expertise with its European counterparts to compete with rivals in the US.

But does Europe have to choose between national giants, cross-border project collaboration, or multinational mergers? Mr Weston of BAe thinks not. He foresees "a mixture of national and international mergers to rationalise the industry". Nor is he persuaded that Europe is falling behind the US.

Ironically, the end of the cold war, which brought such savings for the US, may increase the burden on Europe's taxpayers

"Europe does have some barriers to overcome whicb the Americans do not. But then the European industry probably started to sort itself out long before the US."

However, as Lord Weinstock points out, European companies cannot be expected to make strategic decisions until governments have defined tbeir foreign policy priorities more clearly. "Tbe defence industry needs direction from governments, but the situation is far more complex now that the cold war is over," he says.

European governments are drawing up a defence shopping list in the light of a partial, and possibly total, US withdrawal from the continent. This shnuld be concentrating minds in foreign ministries and boardrooms, but so far there has been only a stumbling convergence between leading members of the Western European Union, the embryonic security organisation.

Britain, the standard-bearer of links with the US, now accepts that the WEU's importance will increase and that in certain conflicts, Europe may act alone. France, long suspicious of Washington's intentions toward Europe, now worries about too little US presence in Europe rather than too much.

But key questions about the size and function of Nato remain wide opsn, and all discussion of Germany's role will be hypothetical until this summer's verdict by the constitutional court on whether the Bundeswehr can serve overseas.

European governments broadly agree on what they need for home defence or to fight a small version of the Gulf war without US help: mobile armour, a strategic airlift capacity, satellite intelligence, and early warning systems to detect and intercept long-range missiles.

Where they do not agree is on what all this implies for the arms industry.

For France, it is axiomatic that European self-sufficiency in arms can only be attained through self-sufficiency in arms production. With its own budget under strain, it feels more strongly than ever the need for cross-border collaboration.

Next week, France and Germany will reaffirm their commitment to establish a joint arms agency, initially to manage existing projects but with the possibility of becoming a powerful procurement executive.

There is some scope for mutual advantage between France and Germany in export markets. France needs German capital and engineering skills, while Germany sometimes benefits from France's global connections, and its relative freedom from export restrictions.

German companies are barred by law from exporting arms to areas of actual or potential tension. Last year's $3.5bn sale of French tanks with German engines to the United Arab Emirates looked like a neat way round that problem – although even that deal required a special permit by the Bonn government.

The UK, for its part, does not accept that defending Europe necessarily implies buying European. For its forthcoming purchase of helicopters, the British army is though to favour the US-designed Apache rather than the Franco-German Tiger. To meet its strategic airlift requirement, it is keeping open the options of buying more US Hercules aircraft or coming back to the European Future Large Aircraft, from which it withdrew in 1989.

Even France is conscious of the high price of investing in European capabilities. Mr François Leotard, the French dsfence minister, has acknowledged that in pure budgetary terms, it might be better for France to buy Hercules aircraft. He has even suggested that both FLA and the four-nation NH-90 helicopter may have to be axed unless production costs can be trimmed by 20 per cent. However, he remains committed to both projects because of their importance for European industry.

Other items on ths European wish-list will be even more expensive. France has virtually completed one military satellite programme, the Helios, with help from Spain and Italy, but it cannot drum up much anthusiasm for further space extravaganzas.

While seeking financial help from its European partners, France is traditionally reluctant to share sensitive technology. Recent defence ministry documents state clearly that the country no longer has the money to be self-sufficient in defence electronics or weapon-building material. But its insistence on independence in nuclear matters is undiminished.

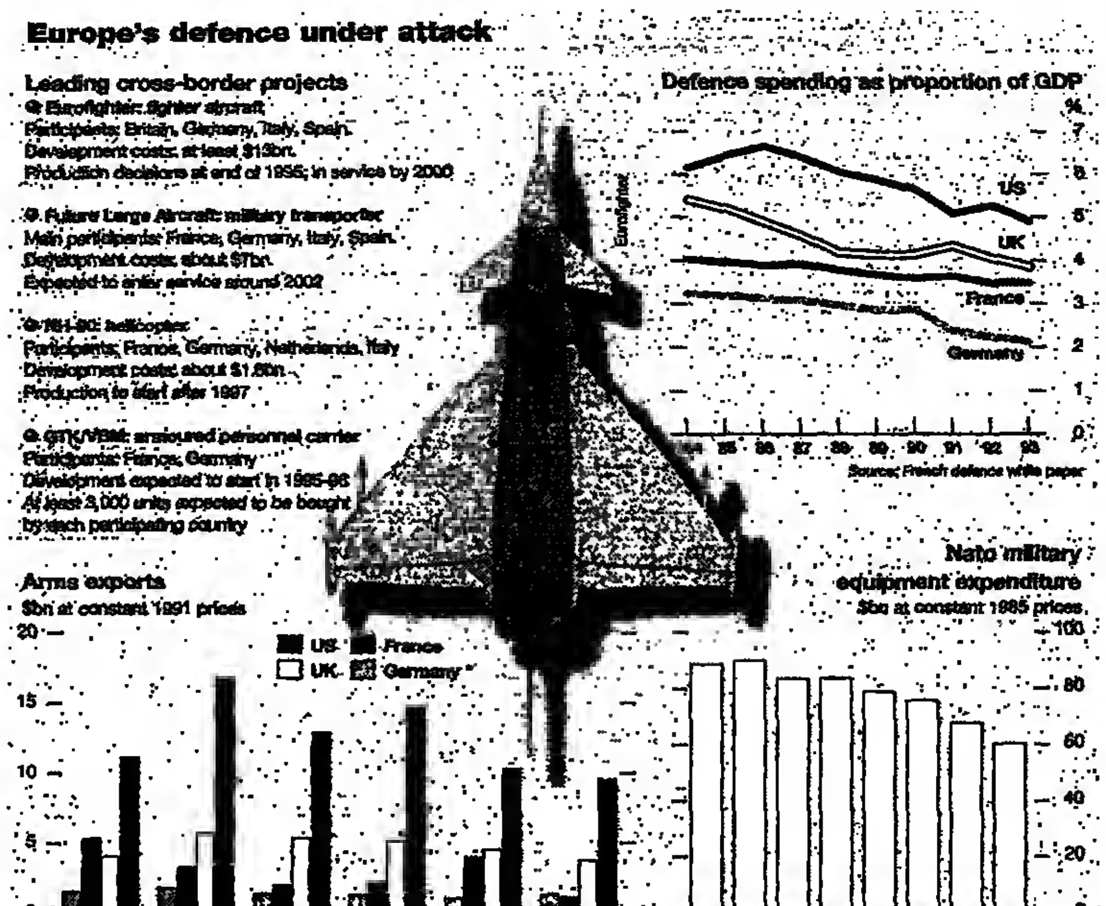
Nuclear technology is proving increasingly costly, but among European states which do not trust each other enough to make bullets, such strategic collaboration is even harder. Besides, while France is protective of its own nuclear secrets, Britain's relationship with the US prevents it from passing on American technology to other countries.

The most ambitious European dream of all would be the construction of a strategic anti-missile defence system to rival America's now-defunct Star Wars plan. The military case may be growing, as rocket technology becomes available to increasing numbers of uncomfortably close and potentially unstable countries in the Middle East and North Africa.

However, even the US has been forced to curtail its aspirations in the field of anti-missile defences. So it seems unlikely that Europe will be able to raise the enormous sums necessary to implement such flights of fancy. At a more practical level, even a streamlined European defence industry may not be able to afford to design a shield against low-technology Scud missiles of the kind used in Yemen over the past few days.

Such large-scale projects would require clarity of military purpose, political will and industrial cohesion – all of which are lacking at the moment. Ironically, the end of the cold war, which has brought such savings for the US, may increase the burden on the European taxpayer. Politicians may be called upon to explain to voters that they face a peace levy and not a peace dividend, if the continent is to defend itself without US help. To make matters worse, the political challenge coincides with intensifying competition from American defence contractors which can merge and co-operate without hand-wringing over technology transfers and issues of sovereignty.

As one European expert put it: "The US is rationalising nver three to five years. Europe is moving over 10 to 15 years. That is the kind of gap you just don't close."



OBSERVER

Waves from the ocean

■ Bernard Tapie, France's much-investigated businessman cum politician, seems to have added an offshore tax problem to his many woes – in the shape of his splendiferous yacht.

Currently away from her usual berth undergoing repairs, the Phocéa, so-called to evoke the ancient name for Marseille, normally bobs about right in front of the town hall in the midst of the city where Tapie would be mayor.

But the French authorities are threatening to take the wind out of Phocéa's sails. Until now, the four-masted, 74-metre schooner, purchased a decade ago from the widow of racing sailor Alain Colas, has been registered as a "commercial" vessel. Hence Tapie has been able to treat large renovation expenses as a business tax deduction – not to mention escape paying VAT when the yacht was originally imported from Tahiti.

Now the tax people are jibbing at the boat's commercial status, and are also investigating whether Tapie may have used money from his various companies in order to help with the lovely lady's very considerable running costs.

Another interested party has also surfaced. According to its new president Jean Peyrelevade, Crédit Lyonnais has slapped a lieo on the yacht as security for Tapie's unrepaid debts to the bank.

Tapie's own cork-like properties, meanwhile, were amply demonstrated when an Ifop poll, published in the weekly Journal du Dimanche, showed the Marseille deputy to be the 14th most popular person in France.

Not a single other politician makes it into the top 15.

Premature

■ Maybe Yasuhiro Nakasone shouldn't be written off just yet. The domestic reputation of Japan's prime minister between 1982 and 1987 may be tainted by involvement in one of the country's many bribery scandals, but he is still in demand as an international elder statesman.

A colleague bumped into him in Geneva recently, where he was advising the United Nations on next year'a 50th anniversary celebrations, and was surprised to find him just as keen to talk domestic Japanese politics as international affairs.

Nakasone's view is that an early realignment of Japan's political parties is on the cards to restore much-needed stability.

He won't predict who will cuddle up to whom, but says any new grouping will share a common view on that all-important relationship with Washington.

In such circumstances would he be tempted to re-enter Japan's political fray? Given that Nakasone turns 77 this month, it'a hard to believe he would want – let alone get – a big political job again. But he refuses to rule himself out entirely by echoing General MacArthur: "Old soldiers never die . . ."

'You know what I miss? Tobacco advertising'

Tunnel vision

■ What with all the Channel tunnel pomp and the D-day landings razzmatazz, it is perhaps to be expected that anotber little marker in the history of Anglo-French merry-making has been allowed to slip by virtually unnoticed.

Last month was the 90th anniversary of the *entente cordiale*, an "understanding" cobbled together by Lord Lansdowne, Britain's foreign secretary, and Paul Cambon, the French ambassador in London. Roughly speaking, the French conceded that the lobster was a fish, in return for control of various small corners of west Africa.

Although Douglas Hurd, Britain's foreign secretary, and Alain Juppé, his opposite number, had a spot of dinner to mark the occasion, the anniversary had been otherwise ignored.

Step forward the British Business Lunch Club in Copenhagen. It has invited French businessmen to a celebratory lunch on May 28 (50 days late, but who's counting?) wbere the British commercial attaché, Anthony Layden, and his French counterpart, Bruno Caron, will debate to what extent the hole under *la Manche* threatens to destabilise the *entente cordiale*.

Nice insider

■ If, as seems increnslngly likely, William Donaldson decides not to seek a second term next year, the New York Stock Exchange may well look no further than his current number two, NYSE president Richard Grasso, for its next chairman.

The diminutive Grasso is the ultimate insider (in the nicest possible sense). He joined the exchange in 1968 as a corporate listings representative, and has since learnt almost every aspect of the NYSE's business on his way up.

He has built up close relationships with the frontline troops, the specialists, who have an important say in the choice of their chairman. "He is very much liked on the floor, because he spends a lot of time there and really understands the needs of the specialists," one former NYSE executive points out.

The fact that Grasso looks and talks more like a trader than the current incumbent also does no harm. During his tenure, the more aloof Donaldson has never been much of a hit on the floor.

Grasso also happens to be the market's technology chief, which ougbt to count for even more. At least he should be aware of the complexities of dragging the world's largest floor-based exchange into the 21st century.

Foot down

■ It's not just the policemen, but the joy-riders too, who get younger by the day. And Boots, the chemist, is doing its bit to curb their activities. Its catarrh syrup, for 1-12 year olds, carries a warning that a dose of the medicine causes drowsiness. "If affected do not drive or operate machinery," it says.

FINANCIAL TIMES
Tuesday May 17 1994

Lift in industrial production adds to strength ahead of FOMC meeting

US rate rise hope boosts markets

By Jurek Martin in Washington

US financial markets firmed yesterday as dealers anticipated that today's meeting of the Federal Reserve's policymaking open market committee would end the uncertainty over interest rates.

The Fed is widely expected to raise short-term interest rates for the fourth time this year, from 3¾ per cent, perhaps coinciding with an increase in the discount rate – the rate at which the Fed lends to banks – from the current 3 per cent.

Markets also took heart from April's industrial production figures although the modest 0.3 per cent increase, the 11th consecutive monthly rise, was somewhat less than the 0.5 per cent advances recorded in each of the previous three months.

The Dow Jones Industrial Average was up about 13 points around midday at 3,672.03, bond prices were up about half a point, with the 30-year government long bond yielding 7.431 per cent, and the dollar was trading slightly higher. However, trading volumes were low as many dealers were on the sidelines ahead of today's FOMC meeting.

The industrial production figure was reduced by a little over 0.1 percentage points because of a 2.9 per cent decline in car assemblies. This reflects an adjustment following the figures which showed production close to capacity in February, a level which has proved unsustainable.

But most of the other component parts of the index remained steady. Industrial capacity stayed at 83.6 per cent, well below the inflationary threshold, and both the average work week and manufacturing employment were essentially unchanged. Technology was the strongest sector, with output up 1.2 per cent in April.

The production returns and last week's slim 0.1 per cent increase in consumer prices reinforce the impression of sustainable non-inflationary growth.

Against this background, the logic of a further Fed tightening of monetary policy would be to ensure that economic growth remains steady and non-inflationary, and to reinforce the value of the US dollar on the foreign exchange markets.

The Clinton administration made no attempt to second guess any Fed move yesterday. Mr Roger Altman, the deputy treasury secretary, said: "We don't have any quarrel with the Federal Reserve on monetary policy – our hope is that this recovery will be a durable one."

He also avoided substantive comment on the dollar, repeating what he described as the Treasury's "basic belief" that economic fundamentals should be the best guide to a currency's value.

THE LEX COLUMN

Dutch auction

Does it make sense to privatise a telecoms operator in tandem with a post office? The Netherlands thinks so. KPN, whose preliminary prospectus was published yesterday, combines both telephone and postal services. Part of the thinking is that steady profits from PTT Post will help PTT Telecom in its more volatile market.

PTT Post is in better shape than most European post offices. It is not only profitable but has been making inroads into foreign markets by offering bulk remailing services – to the chagrin of Britain's Post Office. Even so, the combination with PTT Telecom is unfortunate. Telecommunications is viewed by most international investors as the more exciting industry, so the association with PTT Post may drag down KPN's share price. Equally, the uniqueness of a quoted postal company would have been enhanced if it had been floated separately.

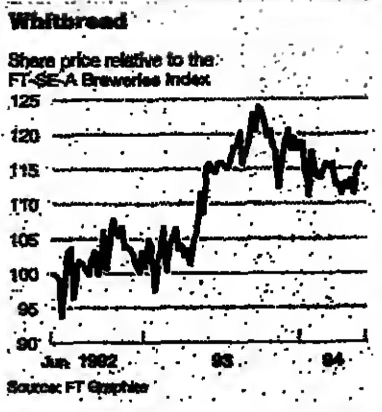
That apart, the KPN flotation looks like being a success. The indicative price range of Fl 46 to Fl 52 seems conservative on most of the yardsticks used to value international telecoms stocks. KPN's prospective price-earnings ratio of 12 compares with 17 at recently privatised Tele Danmark and 13 at BT. Equally, the prospective yield of 4.5 is higher than Tele Danmark's 3.6, though lower than BT's 5.7.

Moreover, KPN's regulatory climate is fairly benign. Plans to license a second Dutch telecoms operator are making only slow progress. Meanwhile, PTT Telecom's tariffs are allowed to rise in line with inflation. BT, by contrast, not only faces an army of competitors but is required to cut its prices by the inflation rate minus 7.5 percentage points.

FT-SE Index: 3115.6 (-3.6)

Whitbread

Share price relative to the FT-SE-A Breweries Index



Source: FT Graphite

Whitbread

Having restructured its capital in a way that would permit it to raise equity on the market, Whitbread has ironically ended up with virtually no gearing. Though yesterday's results were in line with expectations, the 2 per cent fall in its share price may reflect the company's reticence about how it intends to use this balance sheet strength. Capital spending will increase by around £100m a year, allowing the group to capture continuing growth from its hotels and pub retailing businesses. But the extra outlay will simply prevent Whitbread from piling up cash; it will not absorb its considerable borrowing capacity.

The questions are thus whether and when the market will start to show sustained signs of impatience. There are grounds for suggesting Whitbread can afford to wait. The cash inflow from the sale of its regional brewing stakes will not dilute earnings this year. Growth elsewhere will continue to offset weakness in brewing. The decision not to buy Chef & Brewer shows an aversion to over-paying for acquisitions. With Sir Michael Angus and Mr Peter Jarvis at the helm, Whitbread promises sensible and well-articulated strategic decisions.

Just the same there is a worrisome hint of drift. Whitbread says it wants to remain in brewing, which generates a lot of cash. But transfer pricing changes will reduce the stated return on brewing and may make other parts of the business more attractive targets for investment. Strategic dithering will make the comparison with Scottish & Newcastle doubly unflattering if the latter's acquisition of Chef & Brewer turns out to be an unqualified success.

De La Rue/Portals

Even before the recent run-up in Portals' shares, De La Rue stood little chance of winning the paper maker on the cheap. Portals enjoys a strong market position in bank note paper, backed up by anti-fraud technology. With a good record of cash generation, an ungeared balance sheet and dividend cover of two times, there is no question of financial distress. While efforts at diversification have been at times puzzling, Portals' management has made a decent fist of steering the group through recession.

The question is whether De La Rue's industrial logic is compelling enough to justify the full price Portals' shareholders would rightly demand. Integrating printing and papermaking would give De La Rue access to Portals' technology and a list of customers broader than its own. That could open opportunities for selling machinery or other services. But such vertical integration carries risks. If De La Rue took all of Portals' paper production it would lose the flexibility to pick and choose its suppliers. If Portals was still selling to all-comers, customers might resent it being swallowed up.

If De La Rue makes a full bid, these arguments will doubtless get a full airing. If the logic is so persuasive, though, De La Rue will have to explain why it overlooked the synergies until now. The group has been looking for acquisitions and holding net cash since its rights issue in 1991. This time last year Portals was trading at little more than half yesterday's closing price.

Barclays Bank

Having ploughed headlong into the commercial property slump, Barclays is trying to manage its way out. By issuing property-linked bonds to investors, the bank has created a useful hedge against its outstanding loans to property companies. If Barclays has done its sums right, pain caused by any worsening of the commercial property market will be offset by the pleasure of repaying the bonds at less than face value.

But the £150m Barclays hopes to raise is only a drop in the ocean when set against its £4bn outstanding property loans. Nor does yesterday's issue transfer credit risk off the bank's balance sheet, so no additional capital is released. Were that its aim, Barclays might securitise some of its property assets or sell troubled loans in the secondary market. Both techniques have been used extensively by US banks. But securitisation is more expensive to arrange than yesterday's index-linked bond, while the secondary market price for troubled debt is unattractive.

With property loans down to around 7 per cent of UK assets from 9 per cent at the peak, Barclays' over-exposure to property certainly looks less acute. Commercial property bulls might even question the decision to reduce exposure going into the upturn. Still, fund managers of that persuasion could always back their judgment by selling Barclays shares and buying its new bonds instead.

EDS and Sprint talk of alliance

Continued from Page 1

in a recapitalisation of E shares into GM common stock at a 120 per cent exchange ratio, as provided for under the group's certificate of incorporation.

EDS and Sprint emphasised that many issues remained to be resolved in their merger discussions, including the relative value of the two groups, and there could be no guarantee a deal would be consummated.

However, Mr Les Alberthal, chairman of EDS, and Mr William Esrey, chairman of Sprint, said the two companies had the opportunity to "create a single source for products and services to meet the converging information and communications needs of customers".

EDS's strength in the large business market would help Sprint expand here, while Sprint's presence in the consumer market would allow EDS to develop products for the individual.

Shares in Sprint jumped $1⅞ to $38 in lunchtime trading, while E class stock was up $1¾ at $34⅞. GM was unchanged at $53⅛.

BAT buys majority stake in Uzbeki tobacco industry

By Steve LeVine in Tashkent and David Wighton in London

$200m investment aimed at improving quantity and quality of local product

BAT Industries, the UK cigarette and insurance giant, is to take a majority stake in the state-owned tobacco industry of the former Soviet republic of Uzbekistan.

The agreement, under which BAT will invest $200m during the next five years, represents the first large foreign investment in the central Asian republic since the government announced its economic reform programme in January.

The deal mirrors that struck by BAT's US rival Philip Morris in neighbouring Kazakhstan last year. Both cover support for local tobacco farmers as well as investment in processing and manufacturing plants.

"We won't actually own the land on which the tobacco is grown but we will provide advisory services to farmers," said BAT.

It believes that Uzbekistan is the more attractive of the two republics with a slightly bigger market, about 25bn cigarettes a year, and much higher tobacco production.

The state factories are currently supplying less than 4bn cigarettes a year with the balance met largely by imports from other former Soviet republics.

BAT said the priority was to increase the quantity and quality of Uzbek-made cigarettes rather than build brands as in more developed markets. It hopes eventually to introduce its own international brands at the top of the market.

BAT also said it saw an export opportunity for Uzbeki tobacco leaf. "We believe we could get it to a grade that is acceptable on the international tobacco market". The "oriental" tobacco grown in central Asia is used in blended American cigarettes such as BAT's Lucky Strike.

Uzbekistan has lagged behind Kazakhstan in economic liberalisation, and western investors remain slightly sceptical about the economic reform programme. This promised to allow limited private land ownership and repatriation of profits.

The government has recently sought a support agreement with the International Monetary Fund for its currency, the som, which it hopes will reassure international investors and bankers that it is serious about reform.

BAT expects to start generating profits from Uzbekistan within two to three years, although it would not start taking out dividends for about five years. It plans to invest $50m over the next two years to refurbish the existing tobacco factory in Tashkent and $140m to build a new factory in Samarkand.

The Uzbeki investment is by far the largest in the former eastern bloc by BAT, which has joint ventures in Hungary and Ukraine. It is also in "fairly advanced" discussions over factories in Russia and Kyrgyzstan.

Mr Shukrat Gafurov, of the Uzbeki state property committee, said: "The government is fully committed to developing a market-orientated economy, and this agreement is clear evidence of the success of this strategy."

Italy 'to play bigger role in Europe'

By Robert Graham in Rome

Italy's new government will expand the country's role in Europe and seek to increase its influence in international affairs, Mr Silvio Berlusconi, the new prime minister, pledged yesterday.

Italy has consistently played a disproportionately small role in relation to its economic strength and strategic position, and Mr Berlusconi yesterday showed a willingness to lift that profile.

Outlining the government programme of his rightwing Freedom Alliance to the senate, Mr Berlusconi also indicated reservations about the Maastricht treaty on the future of the European Union. But, in a speech lasting nearly an hour, he declined to go into details on foreign or domestic policy, as he is still putting together a programme.

Mr Berlusconi also appeared reluctant to reveal his policies in the senate, where his government is at least eight seats short of the 164-seat majority required to win a necessary vote of confidence.

The confidence vote is due tomorrow, and yesterday the prime minister appealed to senators of the small centrist parties for support. He hinted that they should observe a truce to allow his government to set its policies in place and judge by his actions.

Mr Berlusconi began by focusing on foreign policy and with the admission that his government – sworn in last week with five ministers of the neo-fascist MSI/National Alliance – had been received "in some respects with a certain justifiable anxiety".

He said Mr Antonio Martino, the new foreign minister – in Brussels yesterday for his first meeting with his EU colleagues – had already begun "to state and reinforce Italy's role as a protagonist in the European Union".

"Italy must be in favour of enlargement of the Union, also towards eastern Europe. . . . but a careful process of reflection on the Maastricht treaty should not delay the process of union."

To aid employers, he promised to introduce, in his first 100 days, fiscal measures which would ease the cost of employment and help part-time and temporary employment.

On privatisation, he was very brief, contenting himself with saying: "The government is pledged to accelerate the privatisation of Ina [insurance], Stet [telecoms], Enel [electricity] and Eni [oil and gas]."

On the possible conflict of interest between his role as premier and his position as owner of the Fininvest media empire, Mr Berlusconi said he hoped he would be judged "by facts and not by prejudice".

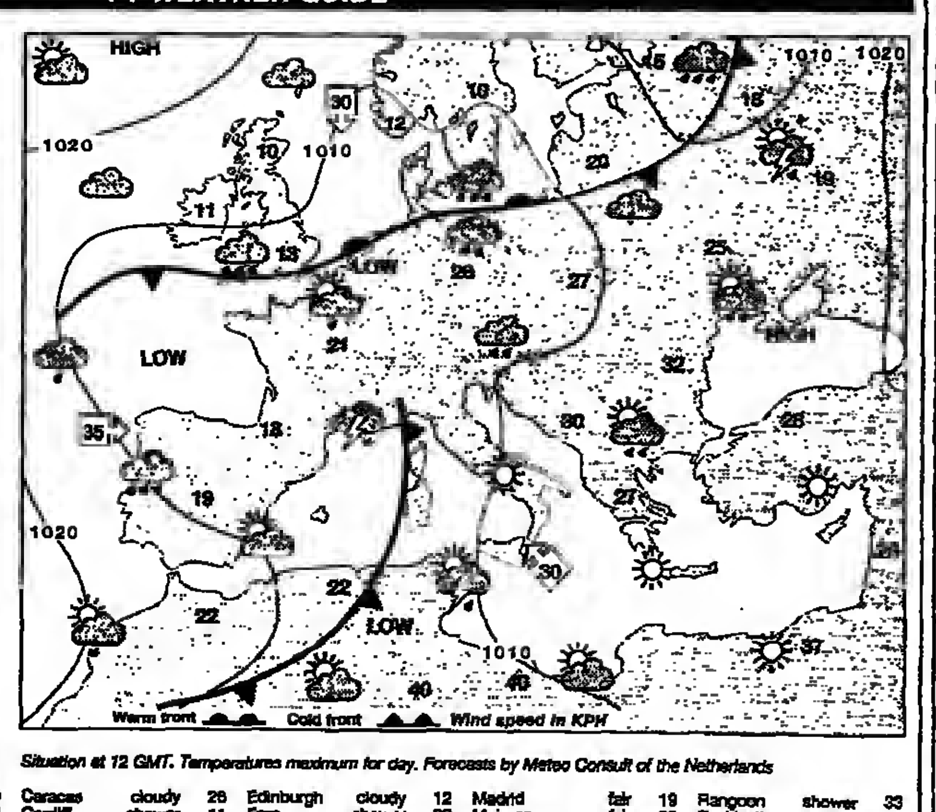
FT WEATHER GUIDE

Europe today

Most of western Europe will continue unsettled with rain or isolated showers in many places. Sunny intervals will lift temperatures to between 20C and 25C. Thunder showers with heavy rain are expected over southern France. The rain will spread towards Switzerland and northern Italy. Spain and Portugal will be unstable and cool but the eastern Mediterranean will be sunny and warm again. Inland temperatures will exceed 30C around the Adriatic and in Turkey. Afternoon showers will cool the Balkans. Scandinavia will continue cool with rain or sleet in the north. Central regions will have sunny intervals but southern Sweden will have rain.

Five-day forecast

A lot of rain is expected over central Europe on Wednesday and in southern Scandinavia later in the week. It will be much cooler after the rain. Northern Spain and Portugal will remain unstable and cool but south-eastern Europe will have an increasing risk of thunder showers. The north-west continent will be warmer by the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	42
Accra	fair	31
Algiers	cloudy	22
Amsterdam	rain	17
Athens	sun	28
Atlanta	sun	27
B. Aires	fair	19
B.ham	shower	11
Bangkok	thund	37
Barcelona	fair	21
Beijing	cloudy	30
Belfast	cloudy	12
Belgrade	sun	32
Berlin	fair	26
Bermuda	fair	26
Bogota	fair	20
Bombay	fair	32
Brussels	fair	21
Budapest	fair	30
C.hagen	shower	16
Cairo	sun	37
Cape Town	fair	17
Caracas	cloudy	28
Cardiff	shower	11
Casablanca	fair	21
Chicago	sun	18
Cologne	shower	23
D' Salaam	thund	30
Dakar	fair	25
Dallas	thund	30
Delhi	sun	41
Dubai	sun	41
Dublin	shower	11
Dubrovnik	sun	30
Edinburgh	cloudy	12
Faro	shower	20
Frankfurt	fair	25
Geneva	shower	23
Gibraltar	shower	21
Glasgow	cloudy	13
Hamburg	rain	19
Helsinki	fair	15
Hong Kong	rain	30
Honolulu	fair	30
Istanbul	fair	27
Jersey	fair	15
Karachi	fair	38
Kuwait	fair	35
L. Angeles	shower	20
Las Palmas	cloudy	23
Lima	cloudy	23
Lisbon	shower	15
London	shower	15
Lux.bourg	fair	22
Lyon	shower	23
Madeira	fair	21
Madrid	fair	19
Majorca	fair	23
Malta	sun	30
Manchester	shower	10
Manila	cloudy	34
Melbourne	cloudy	16
Mexico City	shower	26
Miami	thund	32
Milan	shower	26
Montreal	shower	15
Moscow	fair	18
Munich	shower	23
Nairobi	shower	23
Naples	sun	29
Nassau	fair	30
New York	shower	15
Nice	shower	22
Nicosia	sun	29
Oslo	shower	11
Paris	fair	22
Perth	fair	26
Prague	shower	26
Rangoon	shower	33
Reykjavik	fair	8
Rio	fair	25
Rome	fair	26
S. Frsco	shower	16
Seoul	fair	21
Singapore	thund	31
Stockholm	shower	11
Strasbourg	fair	24
Sydney	fair	22
Tangier	shower	15
Tel Aviv	sun	32
Tokyo	shower	24
Toronto	fair	14
Vancouver	fair	15
Venice	thund	25
Vienna	fair	29
Warsaw	fair	27
Washington	cloudy	18
Wellington	shower	16
Winnipeg	rain	20
Zurich	fair	23

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday May 17 1994

IN BRIEF

Spanish pick-up boosts Telefónica

Telefónica, the partly-privatised Spanish telecommunications group, showed a 15 per cent increase in consolidated net profit in the first quarter to Pta17.34bn ($125.8m). The company said the results reflected a recovery in demand for telephone services as the Spanish economy began to pick up. Page 22

Whitbread rises 32%
Whitbread, the UK brewing, retailing and leisure group, reported a 32.2 per cent increase in pre-tax profits to £234m ($351m) in the year to February 26 thanks to a strong performance by its pub food, restaurant and leisure operations and lower interest costs. Page 22

Sandoz scales back research venture
Sandoz and The Scripps Research Institute of California have scaled back a joint research pact following complaints that the Swiss pharmaceuticals group would corner the output of a large publicly financed US institute. Page 23

JP Morgan profits from stake sale
J. P. Morgan is to take a profit of more than $200m from the sale of part of its stake in Columbia/HCA, the US's biggest private hospital group. Page 23

Interest in Peru maintained
Interest from foreign portfolio investors in Peruvian assets continues to be significant despite setbacks over the past few months. Page 24

Portals shares jump on offer talks
Shares in Portals, the UK security and specialist paper maker, jumped 40p to 805p after De La Rue, the banknote printer, confirmed that the two companies were in talks which might lead to it making an offer. Page 26; Lex, Page 20

SB offers Tagamet rebates
SmithKline Beecham is attempting to defend its best-selling ulcer drug, Tagamet, from generic competition after it loses its US patent protection today by offering $20 rebates to some US patients buying the drug. Page 27

Testing Japanese taste

Harry Ramsden's, the quoted fish and chips company, is attempting to bring this British dish to Japan. Page 28

Platinum metals hit by investment drought
Lack of capital for investment and maintenance is threatening to hit production of platinum group metals in the two biggest producing countries, South Africa and Russia. Page 30

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
AEG	180	+	4.8
Colonia Pfd	970	+	20
PWA	248.8	+	8.3
Wella	943	+	20
Falls			
Berliner Bank	365	-	5.5
Degussa	529	-	11.5
NEW YORK ($)			
Rises			
EDS Systems	34⅝	+	1⅛
Mead Corp	44⅝	+	1¼
Raychem	37½	+	3¼
Falls			
O'Sullivan	9	-	7½
Philip Morris	50⅝	-	1½
Wellek	4⅛	-	2¼
PARIS (FFr)			
Rises			
BIC	1393	+	53
BSN	881	+	19
Euro RSCG	691	+	19
Falls			
Oreal	219.8	-	17.2
Total B	348	-	11
UFB Locabail	427	-	13
TOKYO (Yen)			
Rises			
Brother Ind	719	+	25
San-Ei Chemical	613	+	22
Sumitomo Bake	679	+	21
Falls			
Hino Motors	880	-	35
Yamatake H'well	1620	-	100
Yasuda Tst&Bkg	807	-	29

New York prices at 12.30.

LONDON (Pence)			
Rises			
ADT	623	+	28
Aminex	54	+	6
[illegible]	1660	+	55
Bluebird Toys	843	+	28
City of Lon PR	96	+	13
Close Bros	345	+	10
Eidos	258	+	23
Eldridge Pope A	159	+	9
Forward Tech	43½	+	2½
Goode Durrant	206	+	9
Johnston Group	243xd	+	22
Kalamazoo	139	+	7
National Power	443	+	15
Portals	805	+	40
Prospect Inds	19¾	+	1¼
Sanderson Elec	337	+	12
Falls			
Christies Intl	174	-	19
De La Rue	857	-	21
Eurotunnel Uts	420	-	12
Huntingdon Intl	85	-	3
Monarch Res	285	-	15
Seafield	12½	-	2½
Takare	233	-	11
Wheway	177	-	7

Eurotunnel rights may seek £850m

By Robert Peston in London and Emiko Terazono in Tokyo

Eurotunnel's forthcoming rights issue is likely to seek about £850m ($1.2bn), 20 per cent greater than expected by the market, dwarfing its four previous equity-raising exercises.

The disclosure of the sharp increase in the Channel tunnel operator's refinancing requirements came as it faced continuing problems in raising £700m of new senior bank loans.

Yesterday's deadline for raising the loans was passed with Eurotunnel £150m short, largely because Japanese banks have yet to contribute.

Eurotunnel confirmed, meanwhile, that it does not expect to pay a dividend until 2003.

It also published forecasts of revenues and operating costs. These show over the next decade it will only just be able to service its total debt – including loans from public sector banks – totalling almost £8bn, if the latest refinancing is concluded.

Even as late as 2003, net revenue is anticipated at £1.3bn, from which £378m of operating costs has to be deducted and more than £600m of estimated interest costs – leaving a margin of just £300m, from which to repay principal on the debt and pay the promised dividend. Because of the slim margin of forecast revenues over debt costs, bankers said the company's directors have been given little autonomy over financial decisions in the lending agreements. "We have the company where it hurts," said a principal bank creditor.

The rights issue cannot take place until bankers have provided the new senior debt. A banker said: "I remain hopeful that we will raise the money by the end of the week."

Japanese bankers, who have collectively provided 28 per cent of the company's commercial bank debt, said they had not made their final decisions on whether to provide new finance. But one said: "We feel it's a European project and European banks should play a proper role."

European bankers said they continued to hope new loans would be provided by existing members of the 200-bank syndicate, who have provided £6.8bn of finance to date. "We are not looking to raise the funds from outside banks, such as US banks," said a principal creditor.

Eurotunnel said it was continuing to assess how much debt and equity it needed to raise to provide an "appropriate margin" over its "central case projection of funding needs". Bankers said this was a coded statement implying the Eurotunnel board had decided it needs to raise more equity than originally planned. "They feel they need more than £800m," said one.

Tokyo banks tire, Page 5

Ready for take-off: Jürgen Weber expects to return to profit this year

Reuter

Lufthansa set to move back into the black

By David Waller in Frankfurt

Lufthansa is heading back towards profitability after three years of losses, according to the German airline's chief executive.

Mr Jürgen Weber said yesterday he hoped that the airline would make a profit for the current year which would enable it to pay its first dividend to ordinary shareholders since 1989.

He was speaking as the airline reported a sharp fall in losses for 1993 and further improvements in the first quarter of the current year.

Reflecting the impact of extensive rationalisation, pre-tax losses for the group fell from DM310.1m ($185.6m) to DM8.33m last year on sales of DM19.27bn, up from DM18.6bn.

In the first three months of this year, the Lufthansa parent company cut its losses from DM245m to DM82m.

Mr Weber said he could make no forecast about the size of the 1994 payout – to be paid in 1995 – until the second half of this year. More details are likely at the airline's annual meeting on July 7 when the company will ask shareholders' permission to raise its nominal share capital as a first step towards a rights issue.

Mr Klaus Schlede, Lufthansa's finance director, said the issue would raise at least DM1.7bn, assuming a 20 per cent discount from the current share price. The funds were urgently required to replenish the group's equity capital, depleted after years of losses.

The German government will not take up its entitlement to new shares, thereby reducing its holding from 51.4 per cent to about 40 per cent.

Lufthansa achieved its earnings turnround last year against a backdrop of excess capacity, a sluggish world economy and continuing price pressure in the global airline industry. It said it had managed to decouple itself from the general trend by implementing a restructuring programme, which led to a substantial reduction in staffing and costs. The airline has reduced costs by DM1.5bn in the past two years and aims to trim a further DM500m costs by 1997.

Stripping out the impact of one-off items, operating profits for 1993 amounted to DM409m, swinging back from a loss of DM357m.

In the first quarter of 1994, gross traffic revenues rose 11.5 per cent to DM3.6bn for the parent company.

The courtship ritual of EDS and Sprint

Compatible partners at the multi-media ball

The revolution in the world's information and communications industries is like a dance of giants, with corporate heavyweights trying a range of partners in the hope of finding the perfect match. Yesterday, two of the most important US participants confirmed that their nuptial preparations were well advanced.

Electronic Data Systems, the Dallas-based computing services group, has become engaged to Sprint, the telecoms group which is America's third largest long-distance carrier.

Plenty of hurdles still stand in the way of marriage – not least the fact that EDS is a subsidiary of General Motors, which plans to pave the way for the deal by divesting EDS in a tax-free spin-off to stockholders.

But if the merger goes through, it will create an important new contender in the battle for global business as the industries of computing, communications and entertainment merge – unified by technology which allows all types of information to be transmitted in the same digital form.

This will be biggest tie-up yet between a computing services company and a telecoms provider, although AT&T's takeover of computer hardware manufacturer NCR in 1991 gave it control of NCR's services organisation.

It will also go a long way to solving big strategic questions looming for both Sprint and EDS.

Sprint – which is based in Kansas City, Missouri and had 1993 operating income of $481m on revenues of $11.4bn – is unique among US telecoms groups: its business strategy and regulatory controls on rivals mean that it is the only company with big interests in all three sectors of the industry: long distance, wireless and local phone services.

Some analysts think this type of nationally branded, integrated communications company is likely to emerge as one of the winners from the US multi-media revolution – provided it is sufficiently large and has a strong array of partners.

Until now, Sprint has stood largely aloof from the rush to find multi-media partners, while its 9-10 per cent share of the long-distance market has put it far behind sector leaders AT&T (60 per cent) and MCI Communications (20 per cent).

Still, after a period in which poor marketing meant declining market share in long-distance, it is now growing strongly, thanks partly to its strong brand image – promoted on television by actress Candice Bergen. Its cellular operations are also booming and its local operations are among the most efficient in the nation.

EDS was founded in the early 1960s by 1992 presidential candidate Mr Ross Perot, who sold it to GM in 1984. Capitalising on the increasing complexity of information technology, it has specialised in "outsourcing" (running other companies' computer and communications services) and systems integration, the design and construction of information networks. It has become the world's largest computing software and services company, with 1993 earnings of $724m on revenues of $8.56bn, and has grown rapidly with a series of prestigious contracts, including a £1bn deal to run the UK income tax authorities' computer systems.

GM still accounts for 39 per cent of its revenues, but that is down from 75 per cent in the mid-1980s. Under the proposed spin-off, EDS would continue to provide the same services to GM under a new 10-year agreement.

EDS, however, is also keen to play a role in the nascent world of multi-media. Late last year, for example, it announced a joint venture with France Telecom and US West, the regional Bell operator, to provide interactive financial transaction services to the home and business markets.

But to compete effectively it requires a partner or partners: "The scale of the investment required for these areas is mind-boggling," one industry analyst said yesterday. Furthermore, to reach the individual consumer it helps to have an ally with a strong brand image and close commercial links to the home, which can be provided by Sprint.

At the same time, EDS can give Sprint greater access to its customer base, which is concentrated in Fortune 500 international companies, whereas Sprint's long-distance strength has been in targeting small to medium-sized US companies.

EDS expertise should also help Sprint provide both large and small customers with more sophisticated services, and could play an important integrating role if Sprint goes ahead with rumoured plans to set up a third national wireless network, to compete alongside ones from AT&T/McCaw and MCI/Nextel.

A merger should also save costs. EDS, which runs one of the world's largest private communications networks, could cut its line leasing costs by using Sprint's network, the first all-digital fibre optic system in the US. Sprint, in turn, could reduce information technology costs.

But further waltzes around the telecoms dance-floor may have to await the consummation of this marriage, which still seems months away, given the complexity of EDS's relationship with GM and the need to clear numerous regulatory hurdles. And in that time, the partners could cool on each other, as has happened several times over the past few months ahead of much vaunted multi-media weddings.

Martin Dickson and Alan Cane

EDS
Worldwide
1993 revenue: $8.6bn
Net income: $724m
Staff: 70,000
Operates in 30 countries
Europe
1993 revenue: $1.4bn
Staff: 11,000
Operates in 19 countries

Barclays Bank hedges its UK property portfolio

By John Gapper, Banking Editor

Barclays is to hedge itself partially against further losses on its £4.2bn ($6.3bn) UK property loan portfolio by issuing £150m of derivative debt securities to offset the risk.

The issue – the first attempt by a British bank to balance risks in this way – is intended to protect Barclays while it reduces its exposure to property. A further £100m securities may be issued.

Barclays, which made a pre-tax loss of £242m in 1992 after allowing property loans to grow to 9 per cent of the total, decided to hedge because it did not want to sell property loans rapidly at a heavy discount. The capital sum from the Property Index Certificates, which will be sold to institutional investors in minimum tranches of £250,000, will only be partially repaid if property values fall, allowing it to offset losses on its own book.

Mr Alan Brown, Barclays' director of group credit policy, said it was "not trying to call the market" by betting on which way property prices would move, but wanted to reduce potential losses if prices fell. This would allow the bank to reduce property loans from the current 6.5 per cent of total lending over the next two to five years. Without a hedge, it would face pressure to refuse new property loans, or sell old ones.

Barclays is marketing the certificates, indexed to the £40bn Investment Property Databank (IPD), as a chance for investors to gain exposure to recovery in the UK property market without having to buy and manage properties. If the IPD index rises, a premium will be paid along with the capital on the redemption date. The quarterly income from the certificates is fixed at 7.3 per cent this year, but will then vary with the index. Many investors want to increase holdings of commercial property but have until now had to buy and manage properties, or invest in unit trusts.

Mr James Woodlock, managing director of BZW Investment Management, which devised the certificates, said Barclays' portfolio offered an unusual chance to devise a security which tracked the property market.

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Wal-Mart grows at Kmart's expense

By Richard Tomkins in New York

Contrasting results from Wal-Mart and Kmart, the two biggest US discount store groups, highlighted how Wal-Mart is continuing to grow at Kmart's expense.

Wal-Mart, now the world's biggest retailer, reported an 11 per cent growth in net income to $498.5m for the first quarter to April, while the ailing Kmart barely scraped into profit over the same period with net income of $18m. The result was a further deterioration from last year's first quarter when it reported net income of $58m before extraordinary items. Sales rose 7 per cent to $7.8bn but earnings per share fell from 12 cents before extraordinary items to 4 cents.

Kmart has suffered five years of stagnant earnings because of its failure to compete effectively with Wal-Mart. One of its weaknesses has been poor inventory control, leading to excess stocks that customers do not want to buy.

Mr Joseph Antonini, chairman and chief executive, said the group's niche retailing offshoots had performed well, but sales in the main discount store division had been below expectations, and the company had had to make big inventory reductions.

In contrast, Wal-Mart saw a 27 per cent surge in sales to $17.7bn – a figure boosted by the recent purchase of the Pace membership warehouse stores from Kmart and Woolworth's 122 Woolco superstores in Canada.

However, the cost of making the acquisitions and converting the stores had its penalty at the bottom line. Earnings per share grew 10 per cent from 20 cents to 22 cents, marking a sharp downturn from the rate of 25 per cent a year seen over the last five years.

Wal-Mart's shares suffered a downward re-rating last year amid fears that the company had become too big to sustain the same high rates of earnings growth. Wal-Mart countered that its acquisitions would provide a platform for continued rapid growth.

Yesterday Mr David Glass, president and chief executive, said the conversion of the former Pace clubs into Sam's Clubs – Wal-Mart's membership warehouse operation – was substantially complete, and the conversion of the Woolco stores into Wal-Mart stores should be achieved by the year-end.

Spanish utilities improve their quarterly figures

By David White in Madrid

Telefónica, the partly-privatised telecommunications group which is the most frequently traded stock on Spanish markets, showed a 15 per cent increase in consolidated net profit in the first quarter to Pta17.34bn ($125.8m), compared with Pta15.06bn in the same period last year.

Parent company earnings before tax were 7 per cent up at Pta19.58bn, with the net figure rising 9.8 per cent to Pta15.47bn, as turnover increased by 6.8 per cent to Pta312.84bn. The company said the results reflected a recovery in demand for telephone services as the Spanish economy began to pick up.

Financial costs in the quarter held steady at Pta54.5bn, and the company forecast a downward trend, reflecting declining interest rates.

Iberdrola, the leading private-sector electrical utility, ranking number two in recent stock market activity, reported a 35 per cent rise in pre-tax profit for the quarter, to Pta34.25bn. The result reflected a 12 per cent increase in the company's operating margin together with a reduction of almost 19 per cent in financial charges. The company said it had managed to cut operating costs by 4 per cent.

Turnover was 2.6 per cent up at Pta212.04bn. Provisions were more than doubled in the quarter.

Another of Spain's top electrical companies, Sevillana de Electricidad, reported a 17 per cent increase in first-quarter after-tax profit to Pta 3.94bn, on sales 3.5 per cent higher at Pta64.54bn. It also said it had been able to strengthen provisions by Pta2.33bn due to reductions in operating and financial costs.

The company faces an increasing challenge through deregulation of the mobile telephone market, which is expected to be opened up to foreign operators later this year, and also through the liberalisation of cable television.

It currently has a monopoly in both sectors, which are its fastest-growing activities in Spain.

Sandvik sees continued growth

By Christopher Brown-Humes in Stockholm

Sandvik, the Swedish cemented carbide and speciality steel group, said yesterday it expected a "significant" improvement in its 1994 result after lifting first-quarter profits by 29 per cent.

Like other Swedish exporters, the group is benefiting from a weak currency and cost-cutting, assisted by recovering demand in many important markets and the improved business climate in Europe.

Profits after financial items for the quarter rose to SKr626m ($80.8m) from SKr486m as sales expanded to SKr5.79bn from SKr5.3bn. The group said six percentage points of the 10 per cent sales rise was due to price and volume increases, and the rest to currency and structural changes. Operating profit was 46 per cent higher at SKr566m.

Improved demand wes shown in a 19 per cent rise in orders to SKr6.73bn.

Mr Per-Olof Eriksson, presenting his last report as group president, said: "Order intake is increasing in most European countries. The already strong demand in the US and Canada continues unabated, as well as in South America and south-east Asia." The two weak markets were Japan and Germany.

Mr Eriksson predicted that demand would continue to increase.

Dasa and Siemens in talks on co-operation

By David Waller in Frankfurt

Dentsche Aerospece, the Daimler-Benz aerospace subsidiary, and the Siemens electrical and electronics group confirmed yesterday that they are holding talks about co-operating in the defence technology business.

The two German companies said the discussions were at an extremely early stage and that further details were unlikely to emerge before the summer.

However, they said that the discussions would cover a range of structures for strategic and operational co-operation, including the possibility of setting up a joint venture in the area.

The talks take place against a backdrop of declining sales and orders for the German defence industry as the government cuts expenditure. However, the government is keen to ensure that Germany maintains its manufacturing expertise in core defence sectors.

The companies have been forced to cut jobs in their defence technology businesses and co-operation may lead to more efficient use of existing capacity, the two groups said yesterday.

KPN sticks to the letter on sell-off

Dutch take a novel approach to their telecoms privatisation

Telecommunications privatisations are now commonplace. The sale of KPN of the Netherlands, launched yesterday, is the fifth European offering in the past year alone, with up to a dozen more in the pipeline. Asia-Pacific telecoms is at a similar stage, with a few sales done and plenty to come.

However, KPN is the first large telecoms privatisation to include a state postal service. Elsewhere, posts and telecommunications have been split in the run-np to privatisation, with posts remaining in the public sector.

The inclusion of PTT Post in the KPN sale should cause would-be investors no undne concern. The Dutch post office is one of the few postal organisations in the world that can afford to feel relatively sanguine abont the shift away from letters in favour of facsimile transmissions and the new world of mobile communications.

PTT Post is one of Europe's few profitable poetal operations, contributing nearly a third of KPN's turnover and 15 per cent of its operating profit. It is marketing itself aggressively abroad, and is a pioneer in advanced postal technologies. Its prime aims are to attract greater flows of international business post through the Netherlands and to expand in providing direct-marketing and mailing services to corporate clients.

Analysts in the Netherlands recognise the profitability of the country's postal operations and are positive abont their inclusion in the privatisation. "Postal activities produce stability in KPN's earnings performance in a telecoms environment which certainly has potential but could on the other hand be regarded as 'hostile'," stockbrokers CLN Oyens & Van Eeghen said recently.

Postal services apart, the KPN privatisation follows a well-trodden path. An initial 30 per cent stake will be floated early next month. The government announced yesterday that up to 138.15m shares will be sold at a price between Fl 46 and Fl 52 each, raising a minimum of Fl 6.35bn ($3.39bn) for the state and valuing KPN as a whole at more than Fl 18bn.

A further sale, taking the government's stake to under 50 per cent, is likely within three years, but at least 30 per cent will remain in state hands for at least 10 years.

The Dutch flotation is taking place for broadly the same reasons as those applying across the European Union. The government wants the money, and the state telecoms company wants greater commercial freedom. Competition is intensifying, particularly in the corporate sector, and privately-owned companies are considered to be better placed to endure the onslaught.

Although small in international terms, KPN's telecommunications division is well-placed to succeed in the EU's rapidly liberalising telecoms market. With fewer than 50 employees per 10,000 lines, KPN is among the EU's most productive state telecoms companies. Its network is towards the top of the EU league on all measures except the penetration of cellular mobile services.

On the international scene, it is already geared up to attack the corporate market through its joint venture Unisource – a partnership of KPN and the state operators of Sweden and Switzerland, with the strong prospect of Telefonica, the Spanish operator, joining soon.

Earlier this year Unisource scored a coup when, in alliance with the US giant AT&T, it won a contract to provide a private telecoms network for 30 leading European multinationals – the largest "outsourcing" contract of its kind in the EU. Its future relationship with AT&T is uncertain, but there is the possibility of a more stable alliance.

Given such strengths, most analyets believe KPN will prove a fairly easy sell at the offer price. However, the days are passing when telecoms stocks could be guaranteed to float high above their respective stock exchanges. A glance at BT is a cautionary tale.

For the past six months, BT's shares have fallen steadily against the FT-SE All-Share average, and are down by nearly 20 per cent on their relative value e year ago. A contributory factor has been the rapid growth of competition in the UK market. BT commands nearly 90 per cent, but the perception that it will have to relinquish a larger slice of it has spread gloom across the investing community.

KPN could find itself in the same boat. The Dutch government has indicated its willingness to license a second national operator with its own infrastructure – likely to be formed from the country's cable industry and its state electricity and rail operators.

The new company will not be able to engage in competition with KPN for public voice traffic until 1998 – the EU liberalisation deadline. But if it establishes itself rapidly, it could make inroads into KPN's data and private corporate network business.

Andrew Adonis and Ronald van de Krol

Whitbread up 32% at £234m

By Paul Taylor in London

Whitbread, the UK brewing, retailing and leisure group reported a 32.2 per cent increase in pre-tax profits to £234m ($351m) in the year to February 26 from £177m the previous year, when profits were depressed by non-operating losses.

Profit before tax and non-operating items increased 5.8 per cent to £231.7m in spite of an additional £15m charge for pensions.

An increased final dividend of 13.8p against 13p last time makes a total of 18.8p against 17.75p.

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Restructuring takes toll on Orenstein & Koppel

By Michael Lindemann in Bonn

Restructuring costs continued to dent results at Orenstein & Koppel, forcing the construction and mining equipment maker to a loss of DM65m ($39.1m) in 1993.

However, this is an improvement on the previoue 12 months when the group returned e loss of DM116m.

The company reported an operating loss of DM3m and has set aside DM52m to finance redundancies and the re-siting of activities in Dortmund.

Turnover in the construction equipment division, which accounts for almost 60 per cent of total turnover, fell 17 per cent resulting in a "very bad operating result" which could not be offset by improved results in the mining and escalator divisions.

The company expects "a modest profit" this year as it begins to benefit from a three-year restructuring programme which runs until 1995. O&K, which is 75 per cent owned by Krupp-Hoesch, the steelmaker, recently said it would raise DM144m with a rights issue.

Escalator sales rose 53 per cent worldwide to DM382m, helped by the UK arm which won a DM125m contract from the London Underground.

VW shake-up in Italy

By Kevin Done, Motor Industry Correspondent

Volkswagen, the leeding European carmaker, is restructuring its importer/distributor operations in Italy, Europe's second largest car market.

Antogerma, its wholly-owned Italian subsidiary, is taking control of the Italian distribution operations for all of the group's four marques with the takeover of Seat Italia, which distributes Seat's Spanish-produced cars in Italy.

Antogerma is currently responsible for VW, Audi and Skoda distribution in Italy.

VW is gradually rationalising its group importer/distributor operations in all of the main west European markets.

La Redoute holders lose appeal over Pinault bid

By Alice Rawsthorn in Paris

Minority shareholders in La Redoute, the French mail order group, yesterday suffered a setbeck when an appeal court ruled against them in their ettempt to oppose the company's takeover by the Pinault-Printemps, retail group.

The shareholders, represented by ADAM, a French minority investors' pressure gronp, have been lobbying against the bid, unveiled this year by Pinault-Printemps.

Pinault, which is one of France's largest retail concerns, has owned a controlling holding in La Redoute with 54 per cent of the equity and 68 per cent of the voting rights, since its acquisition two years ago of the Au Printemps department store chain.

However, Pinault, which came under fire from minority investors over the terms of the An Printemps deal, recently revealed plans to buy the remaining shares. Last month it received a "warning" from the stock market authorities over the valuation of its offer, which was otherwise considered to be fair.

La Redoute's minority investors pressed ahead with their lobby against the bid, claiming that the terms were unfair only to be told yesterday by the appeal court judge that there were no grounds on which to pursue a case.

Profits advance of 10.3% for Générale des Eaux

By Alice Rawsthorn

Compagnie Générale des Eaux, the French industrial group, yesterday said it was on course for continned profits growth this year after achieving a 10.3 per cent increase in net profits to FFr3.2bn ($550m) last year from FFr2.9bn in the previous year.

This was in spite of continned losses from its cable television and property interests.

The group, which has significant media interests as well as its core construction and utility activities, surpassed analysts' expectations.

Générale des Eaux yesterday said it was "certain" to raise its profits again this year, but added thet it could not give precise indications as to the likely figure.

However, the group did specify that it expected to see its turnover rise modestly to between FFr150bn and FFr155bn in 1994, from FFr147.6bn in 1993.

Such an increase would repeat last year's rate of 2.9 per cent sales growth from FFr143.3bn in 1992.

The group said it expected a "slight reduction" in the level of activity of its construction interests, but stressed that the overall outlook for these businesses was showing signs of improvement. It also forecast an improvement from its property management activities.

Sandoz scales back research pact

By Ian Rodger in Zurich

Sandoz and The Scripps Research Institute of California have scaled back an ambitious joint research pact following complaints that the Swiss pharmaceuticals group would corner the output of a large publicly-financed US institute.

The original agreement, announced in December 1992, gave Sandoz first rights to all Scripps medical discoveries in return for \$300m in contributions to the institute over a 10-year period.

The revised agreement, announced yesterday, gives Sandoz first rights to only 47 per cent of Scripps's discoveries in return for \$100m in contributions over five years starting in 1997, with an option for a further five years.

Sandoz has also agreed to give up its casting vote on a Scripps committee that selects research projects and reduced its planned representation on the Scripps board from two to one.

The original deal drew strong criticism from the US National Institutes of Health (NIH), which provides \$70m of Scripps's \$120m annual research budget.

Ms Bernadine Healy, NIH director, told a congressional subcommittee on regulation, business opportunities and technology last June that the agreement "would give Sandoz excessive control over Scripps."

It was, she said, "an aberration, and in my view, a dangerous exception to an otherwise successful record of co-operation between industry and NIH-funded institutions."

Mr Ron Wyden, the subcommittee chairman, said the deal amounted to "a corporate takeover of one of our biomedical research crown jewels".

The revised agreement explicitly acknowledgss Scripps's independence. Mr Urs Bärlocher, chief executiva of Sandoz Pharma, said yesterday the group's lawyers had perhaps been too rigorous in drafting the original agreement.

"It is in our interest that Scripps be independent," he added.

Mr Bärlocher noted that publicly-funded research bodies were supposed to help small businesses get access to new technologies, but it looked in this case as if the small businesses were being squeezed out.

He said Sandoz would still have the right to look at all of Scripps's discoveries and could select any 47 per cent it wanted. As originally planned, Sandoz would send several researchers to work at Scripps. "There have never been bad feelings on either side, and we have been able to maintain the spirit of the agreement," he said.

He was pleased the US authorities had accepted the principle that technology developed at a publicly-financed research institute could be transferred to any interested company, including one that was foreign controlled.

Toys R Us restricted by overseas markets

By Richard Tomkins in New York

Toys R Us, the US toy store chain, reported a modest 6 per cent rise in profits in the first quarter to April. The group said it had been held back by poor demand in overseas markets and the cost of international expansion.

Group sales increased by 14 per cent to \$1.46bn, helped by the company's rapid expansion in the US and overseas.

However, with costs sharply higher because of the expenditure of opening stores, nst income rose by just \$2.1m to \$37.6.

Earnings per share, helped by the \$1bn share repurchase programme announced in January, rose to 13 cents from 12 cents.

Toys R Us said its international operations had lost money in the first quarter, but it expected them to produce operating income of \$150m for the full year, compared with \$103m last year.

One factor hitting overseas sales was continuing weakness in the European and Japanese economies.

The company also suffered from poor demand for video gamee. It said this was because there were no "hot" titles around and because many people were waiting for the next generation of 32-bit machines to appear.

Overall, international stores that had been open a year or more suffered a downturn in sales.

However, comparable store sales in the US rose by 6.6 per cent, with soma strong increases in sales of basic toy merchandise.

JP Morgan sees \$200m profit from sale of stake

By Richard Waters in New York

J. P. Morgan is to take a profit of more than \$200m from the sals of part of its stake in Columbia/HCA, the US's biggest private hospital group.

Morgan said it intended to sell 6m shares in the hospital group, out of a total of 21.1m that it owns. At yesterday's midday price of \$37½ – down \$¼ on Friday's close – the sale would raise \$225m, enabling the bank to report a pre-tax profit of soms \$210m.

Ths 1989 buy-out of Nashville-based HCA, then an independent company, has proved the most successful merchant banking deal undertaken by the US bank. Morgan paid about \$50m for a stake which at yesterday's market price was worth \$790m.

HCA was taken public again in 1992 at \$21.50 a share and last year agreed to an all-stock takeover by Kentucky-based Columbia, which valued it at about \$32 a share.

The sale seems likely to be followed by a rapid disposal of Morgan's remaining stake in the hospital group.

The bank declined to say whether further sales were planned, but added: "Like any investment in that [venture capital] portfolio, it has a life cycle."

Most buy-out investors hope to liquidate their holdings and realise profits within five years or so of making an investment.

The HCA stake accounted for about two-thirds of the \$1bn of unrealised investment gains reported by Morgan at the end of last year. During 1993, it realised profits of \$246m from selling equity holdings, \$86m of it related to HCA.

Philips arm in multimedia joint venture

By Louise Kehoe in San Francisco

Philips Consumer Electronics, a division of the Dutch electronics group, Zenith Electronics, the US television and electronics manufacturer and Compression Labs, a specialist in video conferencing technology, ara combining their efforts to develop and market technology for interactive television services.

Under the agreement, they will jointly develop and market TV set-top-boxes for both digital and analogue networks.

These devices will enable cable television and telecommunications network operators to deliver a wide range of programming options, such as video-on-demand, video games, home shopping and other video services with two-way interactive communications.

The companies plan to combine digital and analogue television standards to create set-top-boxes capable of receiving today'a analogue signals as well as future digital transmissions.

The agreement comes as several network providers are selecting the equipment they will use to provide interactive entertainment and information services to the home.

The company said its global engineering, marketing, manufacturing and support infrastructures, with those of Zenith and Compression Labs, made a group that understood what consumers needed.

NBC forms partnership with Mexican broadcast group

By Raymond Snoddy in London and Ted Bardacke in Mexico

NBC, the US network broadcaster, has agreed a partnership with Television Azteca, the recently privatised Mexican broadcaster.

The US group also has an option to take a stake of between 10 per cent and 20 per cent in the Mexican company.

The deal is the latest example of NBC's globalisation strategy – taking stakes or forming alliances around the world rather than simply selling individual programmes.

Last year, NBC acquired Super Channel, the European satellite channel, and last month announced it would be transmitting by satellite into Asia.

Initially, the deal with Television Azteca will involve NBC helping with everything from on-air promotions, programme scheduling and technology, to advertising sales and station management.

Television Azteca, with its two channels, is challenging the four-channel dominance of Televisa, South America's leading broadcasting group.

Mr Tom Rogers, head of NBC Cabla and an executive vice-president of NBC, said yesterday that ths deal fitted NBC's globalisation strategy, and ha saw potential for growth in tha Mexican market.

Mr Richard Salinas, whose family owns the Elektra Group, a consumer electronics consortium, bought tha two networks last July. Channel 7, available in Mexico City, is largely mada up of US programmes and aimed at the young. Channel 13, a national channel, specialises in comedy, soap operas, news and sport.

The value of Azteca, partly influenced by the NBC deal, is estimated to have risen from about \$650m last year to closer to \$1.2bn.

Azteca will be able to offer programmes from NBC and Canal de Noticias, the company's 24-hour-a-day Spanish-language news service, and CNBC, the US company's speciality cable service, as well as locally produced programmes.

NBC is making more effort to expand internationally than the main three established US networks – partly because it sees the network business in the US as an increasingly mature business.

Mr Salinas said yesterday: "NBC'a name, image, management expertise and relationships will provide a unique opportunity to enhance the value of Television Azteca."

EU eases rules for cross-border listings

By Emma Tucker in Brussels

European aconomic and finance ministers yesterday agreed to simplify listing requirements for the shares of European Union companies that wish to be listed on the stock exchanges of other member states.

Tha directive will significantly lower the cost to companies of cross-border listing by allowing some of the information previously required for listing, to be partially or fully waived by the relevant authorities in the host country.

In future certain companies will be able to be listed in other member states without publishing a new listing prospectus.

The move applies mainly to companies of "high quality, large size and international standing, listed in the Community for at least three years and showing a good record of compliance with European Union listing directives", according to the European Commission.

The move fell short of complete mutual recognition by the stock exchanges of the 12 member states but was, according to the London Stock Exchange, a "significant step towards mutual recognition and very useful for smallar companies wishing to move to full listing".

The Commission said the directive was expected to bring about a more efficient simple market in securities. in particular, it would assist efforts by the Federation of European Stock Exchanges to launch the so-called Eurolist project.

This aims to provide deeper and more liquid markets for well established European Union companies with international standing by listing their shares simultaneously in at least six member states.

Mead plans to divest on-line services unit

Mead, the US paper, wood products and packaging group, plans to divest Mead Data Central, the alectronic information division best known for its Lexis/Nexis on-lins services, Reuter reports from Dayton, Ohio.

According to analysts, Mead should get about \$1bn for the division and will probably sell it to a communications group with which it has an alliance.

The Mead Data unit was acquired for \$8m in 1968. It said it is the world's largest provider of on-line information ssrvices for legal, news and financial information and a leading force in the electronic publishing market.

The legal publishing market is worth \$3bn and Mead Data had revenues of \$551m in 1993.

Ths on-line services, legal print and CD-ROM products, electronic publishing software, and productivity software are widely used.

Reshuffle at Kodak

Eastman Kodak of the US is combining its corporate and Kodak Imaging Group staffs, Reuter reports from Rochester.

The group said this was one step in creating a corporate structure "consistent with the corporate strategy" unveiled two weeks ago by chief executive Mr George Fisher.

Under the new structure, Mr Leo Thomas will remain president of Kodak Imaging Group with Mr Richard Bourns joining him in the general management of Imaging as executive vice president of the group.

Mr Bourns is now a senior vice president with responsibility for Kodak manufacturing operations.

Both will have full responsibility across the group, Kodak said.

Mr Wilbur J. Prezzano, who remains president of Kodak's Health Group, is spearheading the company's effort to divest its non-imaging health businesses, the company noted.

Philip Morris in Japan retail link

By Emiko Terazono in Tokyo

Seven-Elevsn Japan, the leading Japanese convenience store chain, will join forces with Philip Morris, the US foods and tobacco group, to develop processed foods and canned beer for the Japanese and American markets.

The move will provide the retailing group with low-priced beer and food products and give Philip Morris increased access to the Japanese market and US convenience stores.

Japanese retailers are trying to lower product costs by tying up with manufacturers and bypassing wholesalers.

Seven-Eleven and Miller Brewing, Philip Morris'e brewing subsidiary, will launch a low-priced beer in Japan in June. The product will be sold later in the US. The price of the beer will be 20 per cent lower than the retail price of the canned beers produced by the four leading Japanese breweries.

The retailer, which owns Southland, the Seven-Eleven operator in the US, is also teaming with Kraft General Foods, a Philip Morris foods subsidiary. The two companies have been test marketing chilled sandwiches in Texas, and Ssven-Eleven plans to sell Kraft products, such as cheese and coffee, in Japan.

INTERNATIONAL COMPANIES AND FINANCE

Investors dismiss setbacks to Peruvian privatisations

Lima shrugs off US rate rises, reports Sally Bowen

Interest both from foreign direct and portfolio investors in Peruvian assets continues to be significant in spite of recent setbacks.

Lima's stock market has held up well, in spite of rises in US interest rates which have dented the enthusiasm of stock and bond investors for Latin American markets.

However, after a successful telephone company privatisation in February, the government failed in its attempt last week to sell the mining and refining giant, Centromin.

The sale in February of Peru's two state-controlled telecommunications companies, CPT and Entel, to Telefónica of Spain yielded more than US$2bn – well above most expectations and setting a pace which may have been impossible to match.

However, the inability to sell Centromin at the first attempt is not being seen by foreign bankers as a body-blow to Peru's privatisation plans.

Interest in the country's mining sector remains high – some 800 people are attending a three-day gold mining conference in Lima. The auction's failure was, it is said, more a reflection of the mining company's specific problems, in particular its possible future environmental liabilities.

Still to be sold in the next few months are a series of fishmeal plants owned by Pescaperu; the distribution and generation systems of Electrolima and Electroperu; and Interbanc, the first of two state-owned banks to come to market. The privatisation list also includes cement producers Lima and Norte Pacasmayo, and the Cajarmaquilla zinc smelter and refinery

Mr Efrain Goldenberg, the Peruvian prime minister, said the government expected to raise more than $3bn this year from its privatisation programme – and noted some private estimates are even higher.

The sale of the telephone companies was an indication of the distance Paru has come since President Alberto Fujimori came to power in 1990, Mr Goldenberg said in an interview in London. "Ten years ago you couldn't have given these companies away."

Part of the success was due, he said, to expectations of growth. "Our economy grew last year by 7 per cent. The official forecast for this year is 5 per cent, but we are pretty sure it will be more than that." GDP in the first quarter is reported to have been 8½ per cent higher than a year earlier.

President Alberto Fujimori: began economic reform in 1990

Investors in general may have been further heartened by rises in the prices of some raw materials.

"With the world economic cycle becoming more favourably disposed towards the providers of raw materials, and with corporate profits rising at 30 per cent per annum, the expectation has to be that the stock market in Lima will continue to do better than most," said investment strategist Mr Roger Nightingale of London-based Latinvest Securities.

This year has also seen Peruvian companies raise foreign finance for the first time in decades – although the environment has become more difficult in recent months. In mid-March, Peru's Gloria group, in association with VestcorPartners, a Miami investment bank, launched a $40m Eurobond issue – the first from Peru in more than 20 years.

A privately-owned telecommunications company, Tele 2000, notched up another first – a $40m issue of convertible three-year Euronotes through Barings Securities and Bankers Trust – even though it paid a higher interest rate than originally expected.

Bankers Trust, in a joint venture with stockbrokars Peruval, is also co-ordinating the first fully-fledged American depositary receipt placement of shares in a Peruvian company. The state has agreed to offer its 38 per cent holding in Cementos Lima simultaneously on the stock exchanges of Lima and Naw York. No date for the issue has yet been set.

At the same time, Peruvian companies are seeing growing opportunities for financing themselves domestically – through the growth of private pension funds, or AFPs.

Launched in June last year, the AFPs have signed up more than 800,000 salaried workers out of an initial target group of 1.2m who are expected to switch from the moribund pension scheme provided by Peru's social security institute (IPSS).

Eight companies are vying for the pension funds market - almost all have international backers, including Aetna, Citibank, ING Bank of the Netherlands as well as Chilean counterpart funds like Provida, Habitat and Cruz Blanca.

The total fund size is small, around an estimated $95m. But once the state starts meeting its contributions for public sector workers, around $25m a month, money will be flowing into the AFP coffers, amounting to some $300m by the end of the year and a possible total fund of $4bn within five years.

"Peru has had the advantage of not being the first-comer," says Mr Carlos Boloña, economy minister from 1991 to 1993 and architect of the structural reform programme. "We did in two years what took six in Chile, and we've gone further in many reforms than Chile or Bolivia."

Additional reporting by Stephen Fidler and Ken Warn.

Pre-tax profits slip at Sony music unit

By William Dawkins in Tokyo

Sony Music Entertainment, the 71 per cent-owned entertainment subsidiary of the Sony electronics group, yesterday unveiled a fall in profits and its first annual sales decline for nine years.

Pre-tax profits fell 11.7 per cent to Y19.84bn ($189.4m) on sales down 1.2 per cent to Y98.6bn. This was a result of lack of hits by Japanese musicians, said Mr Kazutoshi Shiraishi, Sony Music Entertainment's managing director.

The poor performance of domestic music was only partially offset by increased sales of discs by Billy Joel, experiencing a revival in Japan, and other foreign stars.

Net profits rose 0.6 per cent to Y12.01bn, due to a temporary drop in corporate tax payments, but will shrink again to an expected Y9.7bn this year as the tax bill rises, said Mr Shiraishi.

Ha expects a revival in sales of Japanese music discs, but not in foreign discs or videocassettes. On these grounds, Sony Music Entertainment expects pre-tax profits to fall this year, to Y18.5bn, on sales of Y99.3bn.

The annual divided has been increased from Y22.5 to Y25 per share. Per-share earnings were down from Y133.36 to Y116.62 last year, due to dilution caused by a share issue.

Nedcor buys stake in HK bank offshoot

By Mark Suzman in Johannesburg

Nedcor, the South African banking group, has taken a 20 par cent stake in Eqnator Holdings, a snbsidiary of Hongkong and Shanghai Banking Corporation. Cost of the deal has not been disclosed.

Equator Holdings operates throughout sub-Saharan Africa, providing merchant banking, specialist trade and fund management services.

The move is the latest in a series of overseas investments by Nedcor, which has publicly announced its aim to become a banking force throughout the African continent.

The gronp has already entered into a strategic alliance with three European banks – Dresdner Bank, Banqne National de Paris and Banqne Bruxalles Lambert – on operations in Africa.

"We believe the Equator deal will help to create synergies across the region that will be of benefit to our foreign clients," said Nedcor.

Telecom NZ ahead 15.4%

By Terry Hall in Wellington

Telecom New Zealand, controlled by Bell Atlantic and Ameritech of the US, reported net earnings up to NZ$528.1m (US$308.8m).

Mr Roderick Deane, chief executive, said strong progress had been made on all fronts with operating revenue rising by NZ$22.7m to NZ$2.49bn. Telecom claimed success in conntering competition, increasing operating efficiency and raising call volumes.

Domestic call volumes rose 9.9 per cent, while international calls rose 11 per cent. Operating expenses fell 3.9 per cent exclnding abnormal restructuring costs.

Minorco to restructure Chilean side

By Mark Suzman in Johannesburg

Minorco, the Luxembourg-based mining and mineral resources company which is part of Anglo-American, the South African conglomerate, plans to restructure its Chilean operations in a move expected to raise up to $230m for its Mantos Blancos subsidiary.

Under tha plan, yet to be approved by Mantos Blancos shareholders, Mantos Blancos will sell its 49.9 per cent interest in Minera Mantos Minorco (MMML) to a wholly-owned offshoot of Minorco for $110m.

Minorco already controls the other 51.1 per cent of MMML, a company formed in December 1992 to buy a one-third interest in the Collahusi copper joint venture with Chevron Exploration Corporation of Chile.

Mantos Blancos, which is 74.9 per cent owned by Minorco, will also try to raise a further $120m through a rights issue. The rights issue will not be underwritten.

Of the funds raised, $146m will be earmarked for Mantos Blancos' Santa Barbara/SX-EW project, which will expand the company's total copper reserves to 116m tonnes from 53m tonnes and extend the life of mine to the year 2010.

The remainder will go to the Mantoverde copper project.

Regional growth lifts Thai telecoms groups

By Victor Mallet in Bangkok

United Communication Industry (Ucom), the diversified Thai telecommunications group whose parent company is 25 per cent owned by Motorola of the US, yesterday announced almost doubled net profits for the first quarter of this year to Bt416.6m ($16.5m) from Bt209.4m previously.

Ucom, one of several Thai companies profiting from a rapid expansion of telecommunications business in south-east Asia, was listed on the Stock Exchange of Thailand five months ago. Earnings per share were Bt3.56, against Bt10.47 because of the issue of new stock.

The quarterly profit 6m compares with the Bt713m made in 1993. Further financial details were not immediately available.

Samart, a smaller communications company, reported a near quadrupling of net profit in the first quarter to Bt46.62m from Bt11.92m. Earnings per share rosa to Bt1.04 from Bt0.75.

● Bangkok Bank, Thailand's largest bank, reported weaker profits in tha first quarter, with net earnings slipping 4.3 per cent to Bt3.55bn. The bank explained that the comparable quarter of 1993 included an exceptional gain of Bt1.5bn.

Other big banks reported increased profits. Thai Farmers Bank said net profit rose 34.7 per cent to Bt2.11bn, while Krung Thai Bank announced a 25 per cent rise to Bt1.71bn.

BHP buys Mexican stake

By Nikki Tait in Sydney

Broken Hill Proprietary, the Australian resources gronp, has acquired a 14 per cent interest in Grupo Ferro Minero. GFM's main interest is an 82.7 per cent stake in Minera Autlan, a Mexican manganese ore miner and ferro alloy smelter.

Antlan is based in Mexico City, and its local operations have the capacity to produce more than 500,000 tonnes of ore and up to 200,000 tonnes of ferro alloys per year.

No purchase price was given for the GFM stake, but BHP described the deal as a "strategic alliance" which would back up a five-year ore sales contract to Antlan. During this period, BHP Manganese will supply all of Autlan's imported manganese ore needs.

BHP said this could be up to 80,000 tonnes a year.

US Treasuries start the week with solid gains

By Patrick Harverson in New York and Conner Middelmann and Graham Bowley in London

US government securities opened a week in which the Federal Reserve is expected to raise interest rates further with solid gains.

By midday, the benchmark 30-year bond was up 22/32 at 85 28/32, yielding 7.431 per cent. Prices were slightly firmer at the short end of the market, where the two-year was up 1/32 at 99 1/32, to yield 5.980 per cent.

Prices firmed gradually after the start of trading in New York, but dealers struggled to explain why the market opened in such an upbeat mood.

The morning's economic statistics, showing a 0.3 per cent rise in April industrial production, were in line with expectations, and some analysts suggested prices climbed after the figures were released because the market was relieved that there were no nasty surprises in the data.

Trading was described as quiet, with many participants choosing to remain on the sidelines until after today's meeting of the Fed's open market committee. Expectations are high that the FOMC will sanction an interest rate increase at the meeting.

■ Supported by firmer US bonds, most European markets posted moderate gains in quiet trading as dealers awaited the outcome of the FOMC meeting.

German government bonds led the advance, with the 10-year sector gaining about ½ point on shifts to the longer end of the yield curve.

The German yield curve has steepened sharply in recent weeks, with the spread between two-year and 10-year yields widening to around 125 basis points, from 80 basis points about a month ago.

However, after the Bundesbank's ½ point cut in its discount and Lombard rates last week, many analysts are re-

GOVERNMENT BONDS

commending curve-flattening trades, suggesting that investors sell short-dated paper and move into long-dated bonds.

Last week's rate cut "is likely to be the last official move until after the summer recese", said Mr Graham McDevitt, bond strategist with market analysts IDEA.

Although the weekly repo rate can edge some 50 basis points lower over that period, he feels this is largely discounted in forward rates. At the long end, he said, bunds are resisting further selling pressure and with US Treasuries also showing signs of resilience, "a decisive [tightening] move by the Fed this week could spark a substantial corrective rally through European bond markets".

"Since shortening trades are quite widely owned now and the inflation outlook is going to be very positive, I think moving longer in Germany and other continental European markets could be rewarding over the next three months or so," agreed Mr George Magnus, chief international economist at S. G. Warburg Securities.

The June Bund futures contract stood at 95.93 in late trading, up 0.66 points on the day and near its 95.95 high.

French government bonds followed German bunds higher, with the June notional bond future on Matif rising 0.57 points to 94.58.

■ Trade in UK government bonds was subdued as participants turned their attention to the implications of Friday's announcement of a short-dated convertible gilt issue and the FOMC meeting.

"Attention all day has been directed towards working out what the convertible announcement means and as a result performance has not been dramatic," said Mr Simon Briscoe, economist at S. G. Warburg Securities. Details of the size and maturity of the issue, which will be auctioned on May 25, are due to be published by the Bank of England at 3.30pm.

But Mr Briscoe said that yesterday's data showing low UK producer price inflation helped the market hold on to the gains it made on Friday after the announcement of the issue. Producer output prices in April registered their lowest annual increase since December 1986.

"This is very good news," said Mr Briscoe. "There are clearly few signs of inflationary pressures in the economy."

He said that other UK data due this week, including retail price inflation and retail sales, will be important for evidence of a strengthening recovery and of inflationary pressures.

The June long gilt futures contract on Liffe traded at 105 1/32 by late afternoon, down 4/32 points from Friday's close.

IFC puts $15m into Latin America fund

By Antonia Sharpe

The International Finance Corporation (IFC), the private sector arm of the World Bank, has invested $15m in a new Latin American corporate bond fund which it helped to set up.

A number of US pension funds and European institutions have also put money into the Dublin-listed fund, bringing total investment to $80m, said Mr Marc Wenhammar, head of fixed-income at Foreign & Colonial Emerging Markets, the advisers to the closed-end fund.

Mr Wenhammar said that the fund's first gains would come from the higher income which the dollar-denominated bonds would provide but that its medium-term aim was to make capital gains from a reduction in yield spreads on the bonds. He said that it also wanted to take advantage of secondary market disparities.

The fund was launched in April in the aftermath of a sell-off in emerging market bonds triggered by a tightening in US interest rates in February. Mr Wenhammar noted that yield spreads on Mexican corporate bonds had come close to 400 basis points over US Treasuries but that they had since narrowed to around 270 basis points.

About 70 per cent of the fund has already been invested, with just under half going into Mexican corporate paper while Argentine and Brazilian debt account for 30 per cent and 20 per cent respectively.

Mr Wenhammar said the fund's initial investments have been in liquid corporate issues bnt that at a later stage it hoped to buy convertible bonds.

Finland opts for French franc sector with 10-year offering

By Peter John and Antonia Sharpe

The Republic of Finland's FFr6bn offering of 10-year Eurobonds dominated an enlivened session in the Eurobond primary market yesterday.

The issue was priced to yield 32 basis points above the 5.5 per cent French government bond which expires in 2004. Some dealers said the pricing was too tight, and when trading began the spread widened to around 36 basis points.

They argued that Finland had paid 11 to 15 basis points over Libor for the funds, which are being kept in French francs, and the borrower could have achieved better terms by issuing in another currency, ouch as yen or dollars, and swapping into French francs.

However, lead manager Paribas said that swap spreads are very tight and such arbitrage opportunities are virtually non-existent.

Mr Veikko Kantola, Finland's director of finance, said he had considered various European currencies but opted for the Euro-French franc sector as it looked the most attractive after last week's flurry of European interest rate cuts.

He added that the pricing of yesterday's issue showed that Finland's standing in the market was continuing to improve.

INTERNATIONAL BONDS

"The last [French] franc deal nearly two years ago carried a 41-point spread," he said.

According to Mr Kantola, Finland is expected to raise the equivalent of $7bn this year because of the recovery in the country's economy. This compares with $11.5bn in 1992 and $8.5bn last year.

Demand for the bonds came mainly from French insurers and European central banks, Paribas said. SNCF, the French state railway company, fe expected to launch an offering of FFr2bn to FFr3bn later this week.

The dollar was in vogue as GECC, the financing arm of General Electric, issued a $250m three-year bond priced to yield 10 basis points over US Treasuries. The deal was closely followed by a similar self-led offering from Swiss Bank Corporation. The two issues continued a trend established a month ago by AT&T, the US telecoms giant, and further deals are expected this week.

Dealers said yesterday's offerings reflected growing demand for short-dated Eurodollar paper from European retail investors who believe that a further half-point rise in the Federal funds rate has been discounted.

SEK, the Swedish export agency, raised a total of Y45bn through two three-year offerings. It is believed to have owapped the proceeds of a Y35bn issue into dollars, achieving a deep sub-Libor funding cost in the process.

Joint lead manager Merrill Lynch said Japanese and European investors continued to have a big appetite for yen assets, attracted by the stability in the Japanese bond market and hopes of an appreciation in the yen. More issuers are expected to tap the Euroyen sector this week.

Eurofima, the Swiss-based rolling-stock financing organisation, provided e new variation in the recent spate of callable Eurolira bonds. It raised L300bn through an offering of 10-year Eurobonds callable at par after seven years. Joint lead manager Banca Nazionale del Lavoro said that in contrast to recent issues, which were mainly sold to Italian investors, 40 per cent of Eurofima's bonds were placed outside Italy.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
SBC Finance (Cayman Islands)	250	6.50	99.70R	Jun.1997	0.188R	-	Swiss Bank Corp
GECC	250	6.50	99.70R	Jun.1997	0.188R	-	Goldman Sachs
YEN							
AB Svenska Exportkredit	35bn	3.125	99.98R	Jun.1997	0.1875R	-	LTCB Intl/M.Lynch
Swedish Export Credit	10bn	(a)	100.00	May.1997	Undisd	-	Morgan Stanley
D-MARKS							
Genossenschaftliche G.Bk.‡	300	(c)	100.00	Jun.1999	0.20	-	DG Bank
FRENCH FRANCS							
Republic of Finland	6bn	7.00	98.606R	Jun.2004	0.325R	+32 (5½%-04)	Banque Paribas
ITALIAN LIRE							
Eurofima(b)	300bn	9.25	101.125	Jun.2004	1.875	-	BNL/San Paolo di Torino

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 2.7% until 31/5/95, then pays 3.35% thereafter. Call option on 31/5/95 at par. b) Callable at par on the 15/6.2001/2002/2003. c) 6 mth Fibo plus 0.05%.

Indian oil group plans public issue

Oil and Natural Gas Corporation, the Indian energy group, plans a public issue of equity to raise Rs15bn ($478m). The issue will be launched in the next two months, Reuter reports from Bombay.

Mr S. K. Manglik, ONGC's chairman, said the flotation was part of a government plan to dilute its holding in the corporation through selling equity to the Indian public. He said the issue would be followed within four to five months by e Euro-issue.

Mr Satish Sharma, India's oil minister, said the corporation had an offer for a joint venture with the Economic Development Board of Singapore. He said discussions with the EDB were in their early stages.

Repola sets up ADR programme

By Christopher Brown-Humes in Stockholm

Repola, Finland's biggest industrial group, is setting up a sponsored American depositary receipt (ADR) programme to assist trading in its shares.

Mr Tauno Matomäki, Repola's chief executive, said the move reflected the gronp's higher profile both in the US and worldwide.

The ADRs, each of which represents one share, will trade on the US over-the-counter market. Citibank NA will act as the depositary and market maker.

Repola's activities range from pulp and paper to engineering.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/03	105.6100	+1.300	8.62	8.92	8.07
Belgium		7.250	04/04	98.9000	+0.550	7.41	7.59	7.29
Canada *		6.500	06/04	87.4000	+0.800	8.38	8.71	8.25
Denmark		7.000	12/04	98.0700	+0.400	7.26	7.52	7.06
France	BTAN	8.000	05/98	106.6000	+0.370	6.12	6.32	5.94
	OAT	5.500	04/04	90.4300	+0.470	6.86	7.11	6.76
Germany		6.750	05/04	101.2000	+0.430	6.58	6.60	6.33
Italy		8.500	01/04	96.4000	+0.400	9.07†	9.13	8.87
Japan	No 119	4.800	06/99	107.2010	+0.060	3.10	3.34	3.40
	No 157	4.500	06/03	103.6780	-0.700	3.95	3.96	3.96
Netherlands		5.750	01/04	94.1400	+0.620	6.66	6.85	6.65
Spain		10.500	10/03	105.9000	+0.550	9.51	9.71	9.15
UK Gilts		6.000	08/99	93-04	+2/32	7.62	7.95	7.40
		6.750	11/04	91-02	+1/32	8.03	8.29	7.73
		9.000	10/08	107-05	+2/32	8.15	8.39	7.89
US Treasury *		5.875	02/04	90-18	+20/32	7.24	7.48	7.11
		6.250	08/23	85-28	+24/32	7.44	7.61	7.39
ECU (French Govt)		6.000	04/04	81.4500	+0.700	7.24	7.58	7.08

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
		One month	-	Two year	6.01
Prime rate	6¾	Two month	-	Three year	6.42
Broker loan rate	5½	Three month	4.24	Five year	6.87
Fed.funds	4	Six month	4.66	10-year	7.27
Fed.funds at intervention	-	One year	5.39	30-year	7.50

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	120.78	120.76	+0.58	120.90	120.36	116,934	717,345
Sep	119.86	119.80	+0.58	119.86	119.44	1,240	18,668
Dec	118.82	118.86	+0.58	118.82	118.82	410	5,235

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
119	1.86	-	-	0.14	1.57	-
120	1.07	1.70	-	0.33	1.91	-
121	0.42	1.20	-	0.65	-	-
122	0.12	0.48	-	1.41	3.04	-
123	0.01	0.30	-	-	-	-

Est. vol. total, Calls 13,660 Puts 20,141. Previous day's open int., Calls 512,961 Puts 398,711.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.47	95.83	0.56	95.95	95.47	118786	179994
Sep	94.98	95.35	0.59	95.40	94.98	4410	21321

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
9550	0.61	0.84	1.12	1.36	0.28	0.99	1.27	1.51
9600	0.32	0.63	0.90	1.11	0.49	1.28	1.55	1.76
9650	0.10	0.45	0.71	0.90	0.82	1.80	1.86	2.05

Est. vol. total, Calls 26374 Puts 22541. Previous day's open int., Calls 324292 Puts 295609

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.79	100.83	+0.23	100.78	100.78	1	1749

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112.72	112.43	+0.31	112.90	111.93	41815	74434
Sep	111.60	111.53	+0.24	111.60	111.07	1042	6282

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11200	0.76	2.09	0.33	2.56
11250	0.47	1.86	0.54	2.83
11300	0.26	1.64	0.83	3.11

Est. vol. total, Calls 3267 Puts 3461. Previous day's open int., Calls 78604 Puts 74312

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	96.65	96.62	+0.20	96.73	96.36	33,063	112,133
Sep	-	95.80	-	-	-	180	1,784

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105-10	105-01	-0-03	105-12	104-28	44042	124492
Sep	103-28	103-28	-0-04	104-06	103-26	133	931

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
105	0-48	1-56	0-46	3-00
106	0-24	1-31	1-22	3-39
107	0-10	1-10	2-08	4-10

Est. vol. total, Calls 7984 Puts 4821. Previous day's open int., Calls 110083 Puts 78466

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	88.10	88.00	+0.68	88.10	87.70	3,160	9,629

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	103-00	103-05	+0-01	103-14	102-31	010,292	403,931
Sep	102-03	102-07	+0-01	102-15	102-02	7,997	70,469
Dec	101-18	101-20	+0-03	101-25	101-17	678	33,635

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	113.50			113.52	113.32	1595	0
Sep	112.65			112.65	112.46	691	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Mon May 16	Day's change %	Fri May 13	Accrued interest	xd adj. ytd		Low coupon yield May 16	May 13	Yr. ago	Medium coupon yield May 16	May 13	Yr. ago	High coupon yield May 16	May 13	Yr. ago
1 Up to 5 years (22)	123.12	+0.09	123.00	1.85	4.34	5 yrs	7.69	7.72	7.14	7.89	7.92	7.42	7.98	8.03	7.64
2 5-15 years (23)	144.19	+0.26	143.81	1.78	5.32	10 yrs	8.05	8.07	8.09	8.15	8.18	8.51	8.45	8.47	8.76
3 Over 15 years (9)	162.55	+0.07	162.45	2.87	4.06	20 yrs	8.05	8.08	8.31	8.15	8.18	8.61	8.31	8.35	8.80
4 Irredeemables (6)	184.33	+1.45	181.70	0.61	8.12	Irred.†	8.13	8.25	8.64						
5 All stocks (60)	141.37	+0.10	141.11	1.96	4.82										

Index-linked	Mon May 16	Day's change %	Fri May 13	Accrued interest	xd adj. ytd		Inflation 5% May 16	May 13	Yr. ago	Inflation 10% May 16	May 13	Yr. ago
6 Up to 5 years (2)	184.82	+0.01	184.81	0.01	2.53	Up to 5 yrs	3.55	3.54	2.90	2.65	2.64	2.22
7 Over 5 years (11)	176.38	+0.15	176.10	1.02	1.69	Over 5 yrs	3.61	3.62	3.59	3.44	3.45	3.42
8 All stocks (13)	176.38	+0.14	176.12	0.97	1.77							

Debentures and Loans	Mon May 16	Day's change %	Fri May 13	Accrued interest	xd adj. ytd	5 year yield May 16	May 13	Yr. ago	15 year yield May 16	May 13	Yr. ago	25 year yield May 16	May 13	Yr. ago
9 Debs & Loans (78)	131.30	+0.77	130.97	1.71	4.86	9.23	9.34	9.02	9.21	9.31	8.66	9.16	9.28	8.71

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 16	May 13	May 12	May 11	May 10	Yr ago	High*	Low*
Govt. Secs. (UK)	94.82	94.48	93.94	93.77	93.45	94.63	107.04	93.20
Fixed Interest	112.38	112.10	111.87	111.48	110.82	110.87	133.87	110.92

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 16	May 12	May 11	May 10	May 9
Gilt Edged bargains	88.5	77.1	90.2	88.7	73.4
5-day average	83.6	86.8	92.0	93.0	92.5

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Shorts (Lives up to Five Years)						
Treas. 10pc Ln. 1994‡‡	10.00	-	100xd	-1/32	102 1/32	100
Exch 12½pc 1994	12.25	4.93	102 1/32	-1/32	104 [illegible]	102 1/32
Treas 9pc 1994‡‡	8.83	4.99	101 [illegible]xd	—	103 [illegible]	101 [illegible]
12pc 1995	11.47	5.08	104⅝	—	107 [illegible]	104⅝
Exch 3pc Gas 90-95	3.06	4.96	98	—	98	97¾
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Treas 11½pc 2001-4	9.91	8.37	116 [illegible]	+ [illegible]	129 [illegible]	114 [illegible]
Funding 3½pc '99-4	4.67	7.13	74 [illegible]	+ [illegible]	86 [illegible]	72 [illegible]
Conversion 9½pc 2004	8.70	8.17	109 [illegible]	+⅛	125 [illegible]	107
Treas 6¾pc 2004‡‡	7.41	8.01	91¼xd	+ [illegible]	105⅛	89 [illegible]
Conv 9½pc 2005	8.67	8.17	109 [illegible]	+ [illegible]	125½	107¼
Treas 12½pc 2003-5	9.97	8.63	125 [illegible]xd	+ [illegible]	143 [illegible]	123⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Index-Linked	Notes	Yield (1)	Yield (2)	Price £	+ or -	1994 High	1994 Low
	(b)						
2pc '96	(67.9)	2.32	3.35	198½	—	205⅝	197 [illegible]
4⅝pc '98‡‡	(135.6)	2.81	3.48	108⅛	—	113 [illegible]	108 [illegible]
2½pc '01	(78.3)	3.06	3.45	166½	+ [illegible]	176⅜	166⅛
2½pc '03	(78.8)	3.18	3.48	163 [illegible]xd	+ [illegible]	173⅝	163
4⅜pc '04‡‡	(135.6)	3.20	3.49	110 [illegible]	- [illegible]	116⅝	110⅛
2pc '06	(69.5)	3.24	3.47	171	+ [illegible]	184 [illegible]	170⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 16

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 00	1000	90¾	91	+⅛	7.98
Alberta Province 9⅞ 96	600	104⅛	104½		6.25
Austria 8½ 00	400	100	105¼	+⅛	7.36
Bank of Tokyo 8⅞ 96	100	102⅞	103⅞	-⅛	6.68
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom 7¼ 97	5500	104⅛	104⅜	+⅛	5.68
Volkswagen Intl Fin 7 03	1000	100	100⅛	+⅛	7.00
World Bank 0 15	2000	25⅛	25½		6.61
World Bank 5⅞ 98	3000	94⅝	94⅞	+⅛	6.65
World Bank 8⅜ 96	1250	112⅞	113¼	+⅛	6.09
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Abbey Natl Treasury 6 98 £	1000	98	95⅛	+⅛	8.83
Alliance Leics 11⅝ 97 £	100	109⅝	110	+⅛	7.64
British Land 8⅞ 23 £	150	90⅛	90⅝		10.16
DENMARK 6¾ 98 £	800	98	98¼	+⅛	7.57
EIB 10 07 £	637	106⅛	108½		7.40
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

De La Rue confirms talks with Portals

By Paul Taylor and Andrew Bolger

Shares in Portals, the security and specialist paper maker, jumped another 40p to 805p yesterday after De La Rue, the banknote printer, confirmed that the companies were in talks which might lead to an offer for Portals.

Neither company would elaborate on the one-line statement, which came after mounting speculation about the identity of e potential bidder.

Portals' shares gained 99p on Friday after the group, which also includes environmental protection and control products operations, disclosed that it had received an approach.

Market speculation quickly focused on De La Rue, one of Portals' main customers. It has a £200m cash pile and has made no secret of its intention to make acquisitions.

Yesterday its shares closed down 21p at 857p amid market concerns that it might be tempted to pay too much in order to secure the approval of Portals' board, which analysts believe might have to be up to £10 a share, valuing Portals at about £650m.

The two companies have regular discussions about commercial matters; however, the latest move by De La Rue has taken analysts by surprise.

Tha acquisition of Portals, which controls 50 per cent of the world market for bank note paper, would transform De La Rue into an integrated security paper maker and printer.

However, soma analysts believe that there are strong commercial reasons against a merger. In particular they fear that Portals' other customers would balk at purchasing paper supplies from a rival.

Since Mr Jeremy Marshall, the ex-Hanson man, became chief executive of De La Rue in 1989 profits have quadrupled following a tough programme of disposals, closures and efficiency improvements.

Its biggest purchase to date was the £94.7m acquisition of Inter Innovation, in 1991.

See Lex

Fenner surges to £2.9m as recovery gets under way

By Andrew Bolger

Tha management of Fenner said yesterday that it was seeing the first signs of the promised turnround at the Hull-based industrial products group.

For the half year to February 28 pre-tax profits rose from £105,000 to £2.91m, including a gain of £795,000 from the sale of two operations in South Africa.

Performance had improved in all divisions and the return to positive earnings per share had allowed it to resume interim dividends via a 0.5p distribution.

The figure took account of an exceptional charge of £2.06m (£1.4m), most of which related to the group's reorganisation of its power transmission division, which involved the closure of a plant in China.Last year Fenner was approached by a possible buyer of its power transmission business, but talks broke down in December.

Mr Mark Abrahams, finance director, said it seemed prospective buyers were unlikely to offer an acceptable price, so the group would concentrata on improving the division's performance. Power transmission incurred a small operating loss of £300,000 on sales of £33m, but was now trading profitably.

The fluid power division increased sales from £11m to £14m and new products increased its market share, particularly in the US. Operating profits rose to £1.2m (£800,000). Significant growth in both the US and UK helped the group's niche polymer businesses raise sales from £17m to £19m and operating profits from £1.8m to £2.3m.

Conveyor belting's sales were flat at £13m, with a drop in orders from British Coal being offset by stronger overseas sales in the US and Australia. Operating profits rose from £800,000 to £1m.

The group said its South African businesses had again performed well in recessionary conditions. with the political uncertainties not having had any significant effect.

Earnings of 0.65p compared with losses of 4.65p last time.

● COMMENT

Fenner has clearly turned the corner. Polymers and fluid power are going well, particularly in the US, and conveyor belting has performed creditably overseas. Power transmission is being held on to unless or until someone is prepared to pay a decent price. Profits should rebound sharply, thanks to the elimination of restructuring chargas and lower interest payments. The return to profitability in the UK after three years will also lower the very high tax charge. These positives are partly offset by the group's exposure to South Africa, with the allied political and foreign exchange risks. Profits are forecast to recover to about £7.5m in the current year to August, but an expected £11m the following year puts the shares on an undemanding multiple of about 14.

Chelsfield increases stake in Merry Hill shopping centre

By Vanessa Houlder, Property Correspondent

Chelsfield, the property company headed by Mr Elliott Bernerd, has increased its holding in tha Merry Hill shopping centre in the West Midlands from 30 per cent to 50 per cent.

The company, which bought the scheme in partnership with Saudi Arabian investors, has paid £7.1m cash and extended e shareholder loan to increase its stake.

The centre, which was purchased for £128m last September, has been revalued at £185m, reflecting increased rental income from the project and the uplift in the property investment market.

Situated in Dudley, it is one of the four largest shopping centres in the UK, comprising soma 1.4m sq ft of covered shopping mall space and approximately 400,000 sq ft of retail warehousing.

The centre's annual rent roll is expected to reach £16m by the end of this year.

Senior lenders to the project, which originally made a £90m 10 year senior loan, have agreed to extend additional facilities which will replace a £19m mezzanine loan, which was formerly guaranteed by the Saudi Arabian investors.

● Chelsfield also announced yesterday the acquisition of a 50 per cent interest in St Catherine's House in central London.

The company has bought its 50 per stake in the building through a joint venture company, formed with a private German investor, for £35m

BIL reviews plans for Mount Charlotte

By Michael Skapinker, Leisure Industries Correspondent

Brierley investments of New Zealand is rethinking plans to float Mount Charlotte Thistle Hotels, its UK subsidiary, after a recent upturn in business, particularly in London.

BIL, which acquired Mount Charlotte in 1990, has said repeatedly that its eventual aim was to float the chain. However, with trading improving after a difficult few years, some in the New Zealand group believe it might be preferable to hold on to the chain and benefit from the upturn.

While a flotation has not entirely been ruled out, BIL is also considering selling a slice of Mount Charlotte equity to a small group of investors. In 1991 BIL sold a 30 per cent stake in Mount Charlotte to two Singaporean government agencies.

Mount Charlotte mada a profit of £2.1m after tax in 1992, compared with £1.5m in 1991. While the chain has, along with the rest of the UK industry, suffered a fall in occupancy and rates during the recession, its London hotels are currently thought to be well over 90 per cent full.

The hotel chain, the second biggest in the UK after Forte, is expected to phase out the Mount Charlotte hotel name in favour of its Thistle brand.

The company, which operates 112 hotels in the UK, has said it wants over 60 per cent of its establishments to be marketed under the Thistle brand by the end of next year. It said it intends to turn Thistle into the UK's leading four-star hotel chain.

Over the past two years, the company has upgraded eight Mount Charlotte properties to Thistles and will upgrade a further 10 over the next few months. The chain, which has no hotels outside the UK, is believed to be in no rush to acquire properties or management contracts in continental Europe.

It believes that Londoo will remain one of the world's most important hotel markets. The company has 24 hotels with nearly 7,000 rooms in London, making it the biggest operator in the capital.

British Gas in power generation move

British Gas yesterday moved to strengthen its position in the fast-growing international power generation sector by buying a 51 per cent stake in US-based Gas Ventures Advisers.

GVA, which was set up in 1991 with financial help from British Gas, specialises in the development of private sector, gas-fired power generation projects, mainly in Malaysia and Indonesia.

Quality streets find ready buyers

Alison Smith on the advantages of acquiring good mortgage books

Potential home buyers complaining that many properties on the market are poor quality and that the good ones are snapped up quickly at rising prices as buyers compete, may find it comforting to know that mortgage lenders themselves are in the same position.

The properties in question are mortgage books rather than houses, but the market conditions are not dissimilar.

For the last few years, interest among lenders in this low-profile form of acquisition has been increasing, and competition has become intense.

"A couple of years ago, it might be that two lenders looked at a book that was for sale," one senior executive said, "now, 15 might see it".

Even among centralised lenders, who are usually cast as those seeking to leave the market, there is some interest in acquiring mortgage books. National Home Loans, for example, is looking to buy.

None of the purchases has so far matched in size the £1.8bn offered by Lloyds Bank for Cheltenham & Gloncester Building Society.

However, the sums involved can still be substantial and are rarely insignificant. Few lenders would look at a book worth less than £10m, and for the larger organisations £20m may be the lower limit, which makes the process of carrying out due diligence worthwhile.

Halifax Building Society has built up mortgage book acquisitions totalling about £1bn over the past three to four years. In February this year Abbey National bought the £900m UK residential mortgage book of the Canadian Imperial Bank of Commerce.

Birmingham Midshires, one of the smaller building societies active in this area, made acquisitions amounting to almost £250m in 1993.

Such activity highlights the contrast with the books that have failed to find a buyer. "There are a lot of poor quality loan portfolios out there," commented one lender.

Nothing came, for example, of giving potential purchasers the opportunity to show interest to the £2bn mortgage book of Mortgage Express, the centralised lender owned by the TSB. Some potential buyers were deterred by the quality of the loans. TSB says now that it is committed to keeping the operation and managing down the loan book.

Similarly some of the mortgage books available from foreign banks have not proved attractive. These banks entered the UK housing market in the mid- to late-1980s, stopped lending in the recession and now want to leave an area of non-core business.

Much more attractive have been the the staff mortgage books of some large financial institutions. Even the Bank of England has sold its staff mortgage book to the Halifax, which has specialised in this type of purchase.

Mr Peter Walsh, finance director of Chelsea Building Society, said that in buying a mortgage book a lender was taking on business where there was a track record of payments giving more information than may be obtained from vetting a new borrower.

While it is hard to imagine what could be safer than taking on the Bank of England staff mortgage book, this lack of risk highlights only some of the advantages that e purchaser can gain from buying a book of the right quality.

Mr John Fry, group services director at Abbey National, said that buying the CIBC book was "a way of increasing our assets without putting margins under pressure".

The purchase also gave Abbey an additional 17,500 mortgage customers who were "pleased to come to a household name", as well as a facility that will enable them to securitise future mortgages.

Abbey gave former CIBC borrowers a 0.25 percentage point interest rate cut, but they are still paying about 0.5 percentage points more than Abbey customers generally.

Mr Stuart Bernau, a senior executive at Nationwide Building Society, commented that even when different interest rates paid were harmonised, there was still a benefit in acquiring such loans.

Against the background of the recent emphasis on fixed-rate mortgage lending, where margins are generally narrower, the opportunity to buy a significant amount of variable rate lending is particularly attractive.

Compared with merger or the purchase of another organisation, buying a mortgage book can also offer growth without tears.

The transaction does not require, for example, the consent of a society's members, and the legal status of the process is not in doubt.

It is also much less likely to lead to large scale job losses or redundancies than having to reconcile two branch networks into a single organisation.

Though lenders believe the intensified competition for mortgage books will continue for some tima, despite the impact it has already had in raising prices, they know that whatever its benefits, buying mortgage books can only be a sideline compared with selling mortgages.

"It's a useful addition, but it's not going to change the way we do business," concluded Mr Dick Spelman, marketing general manager at the Halifax.

Huntingdon chief executive resigns

By David Wighton

Mr Bernie Wooley is resigning as chief executive of Huntingdon International Holdings, the life sciences and engineering services group that has seen its share price fall by two thirds over the past year.

The move follows a strategic review which concluded that the group should focus on its original life sciences business.

Mr Wooley has headed the company for 14 years during which it diversified into engineering and environmental consultancy in the US and bought consultants Travers Morgan in the UK.

The review concluded that neither of these divisions had the earnings prospects originally envisaged.

Tha group yesterday announced a sharp fall in operating income from £5.8m to £2.57m for the six months to March 31. At the pre-tax level profits were slightly ahead at £989,000 (£984,000) reflecting £3m of restructuring costs in the first half of last year.

The company, which has issued two profit warnings since March last year, said income from operations had been "significantly" below expectations but that it was continuing to generate cash surplus to operations. This was reflected in an unchanged interim dividend of 0.875p.

Tha US arm incurred an operating loss of £388,000, compared with a profit of £942,000 last time, while profits from Travers Morgan fell to £343,000 (£1.23m).

Operating income from life sciences slipped to £3.75m (£4.37m) on turnover of £20.1m (£19.7m).

The group has appointed Kleinwort Benson, the merchant bank, to help it identify strategies for the engineering businesses. Mr Christopher Cliffe, finance director, said this would cover options other than disposal.

Mr David Anslow, currently chief operating officer international, is to take over as chief executive with Mr Cliffe taking on the additional role as deputy chief executive with responsibility for strategic development.

Although profits from life sciences are expected to pick up in the second half, the company warned that the shortfall for the group as a whole was unlikely to be made up.

The shares closed 3p lower at 86p.

Enterprise renews onslaught on Lasmo

By Peggy Hollinger and Robert Corzine

Enterprisa Oil yesterday sought to step up the tempo of its hostile £1.5bn bid for rival explorer Lasmo by casting doubt on the credibility of the target's management.

Mr Graham Hearne, Enterprise chairman and chief executive, called on Lasmo shareholders to ask whether the group would ever pay "a meaningful dividend". He quoted management statements since 1991 committing the group to at least a stahle dividend when, in fact, the pay-out has fallen from 8.5p to 1.3p.

Mr Hearne also urged shareholders to question Lasmo's financial position, and sought to imply gearing could reach unacceptable levels as a result of the £800m investment programme.

Mr Rudolf Agnew, Lasmo's chairman, rejected Mr Hearne's claims – in particular, the references to gearing. "Enterprise takes no account of Lasmo's operating cashflow over the next three years," Mr Agnew said.

Mr Hearne's letter also said Lasmo's defence document misled shareholders. He denied the company's claim that the offer's unusual equity structure would make second class citizens of shareholders and, in effect, force them to inject cash into the enlarged group. Enterprise is offering 27 A shares, with limited dividend rights, and 12 warrants exercisable at 470p for every 80 Lasmo shares.

"The two elements of the package are separately tradeable and shareholders will not need to subscribe cash to realise the warrants' value," he said.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
British Inv Tst	fin	2.85	July 15	2.6	4.85	4.5
Diploma	int	4	July 1	3.5	-	12
Fenner	int	0.5	Aug 5	nil	-	nil
Huntingdon Intl	int	0.875	July 6	0.875	-	2.775
Whitbread	fin	13.8	Aug 5	13	18.8	17.75

Dividends shown pence per share net.

Price thought to be slightly less than £100m sought

Burford may acquire Trocadero centre

By Simon Davies

Burford Holdings, the property company which purchased the Ladbroke property portfolio for £103m earlier this year, is understood to have signed an exclusivity agreement for the potential purchase of the Trocadero, off London's Piccadilly Circus.

Mr Nick Leslau, Burford's chief executive, said he was unable to confirm the agreement. He added, however: "For some time, we've been interested in the Trocadero at the right price and under the right conditions."

Mr Philip Wallace, the receiver at KPMG Peat Marwick, said an exclusivity contract had been signed with an unnamed party at a value which was slightly less than the initial £100m asking price.

The Trocadero, which at the peak of the market was valued at more than £200m, helped drag former owners Brent Walker and Power Corporation towards the brink of collapse.

The holding company for the property went into receivership in January 1993, and was put up for sale last October.

At a price of £100m, the 350,000 sq ft entertainment and retail centre would offer a current yield of close to 9 per cent.

The building has considerable potential, having 100,000 sq ft of empty office space, and bringing in almost 14m shoppers per year. However, it has been affected by the tawdry image of its neighbouring streets.

Burford has a reputation for buying lower grade properties where the management can add significant value. Mr Leslau said one option would be to switch the office property back into retail or entertainment.

Burford paid for the Ladbroke portfolio through a share issue, which brought its gearing back down to about 35 per cent, compared with its self-imposed ceiling of 100 per cent. It would therefore be comfortable funding up to £150m in property purchases through debt.

Mr Wallace claimed there had been considerable interest in the Trocadero from prospective buyers in the US, east Asia and UK although £100m appeared unachievable. "We have spoken to 30 or 40 different interested parties", he said.

It appears that Burford has several weeks in which to tie up the deal.

Discount for US patients on SB ulcer drug

By Daniel Green

SmithKline Beecham is to offer $20 (£13.60) rebates to some US patients buying Tagamet, its once best-selling ulcer drug which loses patent protection in the US today.

The move is the latest in a series of measures SB has taken in the past 10 days to defend Tagamet from the onslaught of generic competition.

The rebate is available to patients without health insurance, notably those on the US government run Medicare which provides health cover for the elderly.

The full price of a one-month course of Tagamet is $83. That compares with $98 for a month's supply of Zantac, made by the UK's Glaxo, and $95 for US company Merck's Pepcid, said SB.

SB's discounted price is likely to be heavily undercut from tomorrow. Three companies have signalled their intention to sell the generic drug, cimetidine, as soon as the patent expires. They are Novopharm, the Canadian company, Mylan of the US, and Endo Laboratories, a partnership between Du Pont, the US chemicals giant, and Merck.

SB has said that up to 10 generics companies may eventually join the fray.

Novopharm has said it expects the generic price to be 30 to 50 per cent below that of the branded drug.

Recent cases of other big selling drugs running out of patent protection suggest that an 80 per cent discount within 12 months is likely.

As well as patient discounts, SB intends to maintain tight control of remaining intellectual property rights over Tagamet.

Novopharm and Mylan were last week the subject of law suits alleging infringement of patent and trademark laws. The cases revolved around the similar appearance of the generic versions and branded Tagamet.

Novopharm quickly settled out of court to make its cimetidina tablets in a darker green than Tagamet tablets.

SB also decided last week to launch its own generic version of Tagamet in competition with the three other suppliers. It will sell them to hospital chains and managed healthcare organisations that look after the healthcare obligations of large employers.

It also engaged Lederle, part of American Cyanamid, to sell the generic to pharmacies. SB plans eventually to sell Tagamet without a prescription over-the-counter. The OTC version has already been launched in the UK and tha company said that it remained "in active discussions" with Washington's Food and Drug Administration.

"There will be more of these measures as SB engages in this damage limitation exercise," said Mr Nigel Barnes, analyst at Hoare Govatt. "SmithKline knows that it is facing a tide of generics."

Life Style Care to join market

By Peggy Hollinger

Life Style Care, the nursing home group which specialises in caring for elderly mentally infirm patients, is seeking funds for expansion through a Juna flotation expected to value the group at between £20m and £25m.

The company is coming to market next month through a placing which is expected to raise about £10m. Proceeds will be used to pay down estimated net debt of £6m.

Life Style was formed in 1987 by Mr Ramesh Sachdev, the accountant and property dealer who is now chief executive, and his wife, Pratibha.

Mr Sachdev's family is expected to sell only a small part of its 85 per cent holding to raisa some £2m. The two remaining shareholders – Eagle Star and Gresham Trust – are also expected to retain the bulk of their holdings.

The company operates in the north and north-west of England and the Midlands, but is thought to be keen to take advantage of lower property prices in London.

It has 14 homes, all of which are freehold, with 564 beds. Occupancy rates over the past two years have been 96 per cent.

In the year to June 30, Life Style reported pre-tax profits of £1.2m on sales of £5.3m. Pre-tax profits for 1994, which will be forecast in the flotation prospectus, are expected to show a significant increase, the company said.

Seafield terminates Imari merger talks

Seafield, the Dublin-based transport and distribution company, yesterday announced that talks with Imari concerning a possible merger had been broken off.

The board of Seafield came under fire last month when a group of shareholders called for an extraordinary meeting to consider a change of leadership at the company.

The dissident shareholders last week wrote to other shareholders outlining their reasons for seeking to replace Mr Brian Chilver, chairman, and Mr Richard Hayes, a director.

They hava nominated Mr Robert Cosby for chairman, and Mr Tony Wilson, a former executive chairman of tha group.

The dissidents, who speak for 25.4 per cent of the share capital, catalogue the "dismal trading and acquisition record" under the present management.

However, Seafield said that the company's problems had been caused by the purchase of Charterhall Properties when Mr Wilson was chairman. Charterhall was sold last October.

Mr Chilver said the group would be writing to shareholders this week.

The extraordinary meeting has been convened for June 10.

Last summer Waterglade International, the property group, withdrew an attempt to replace Seafield's board.

Newmarket sets date for liquidation

Proposals for winding up Newmarket Venture Capital will be put to the annual meeting in August. Holders of more than 41 per cent of the shares have indicated their intention to vote in favour.

If agreed, directors expect an initial distribution of 36p per share within two months of the decision with further distributions as the rest to the portfolio is realised. They added that most of its investments should be realised within two years.

The company has been preparing for liquidation over the past year. At December 31, investments made up 63 per cent of net assets against 86 per cent 12 months earlier.

NEWS DIGEST

TR Europe raises £38m via placing

TR European Growth has raised £38m of new capital with a conversion share issue. The trust, which invests in smaller companies, was previously capitalised at just under £63m.

The bulk of the new money – £34.2m – was raised from an institutional placing, while £3.9m came from an offer for subscription. The C-share offer had been set at a maximum £60m, but difficult market conditions during the offer period meant that the target was unlikely to be achieved.

The shares will converted into new ordinary shares by August 31, or when 80 per cent of the new funds have been invested.

F&C Eurotrust shows improvement

Net asset value per share of Foreign & Colonial Eurotrust amounted to 244.2p at March 31, compared with 210.4p at the September 30 year end and 192.6p a year ago.

As is always the case at the interim stage – because most European companies pay their annual dividend in the summer months – net revenue for the six months showed a deficit, but deeper this time at £642,000 (£371,000).

Losses per share came out at 1.07p (0.63p).

Enterprise Computer appoints new auditor

Enterprise Computer Holdings has appointed Stoy Hayward as auditors to replace KPMG Peat Marwick, which was asked to resign last week after a dispute over fees.

Quarto expands in California

Quarto Group, the USM-traded publishing and printing services company, is buying Front Line Art Publishing, the California-based publisher of art prints and posters, for up to $9m (£6m).

An initial payment of $7m will be satisfied by $5.3m cash and a $1.7m loan note. There is a further performance-related payment of up to $2m.

For the 1993 year Front Line made profits of $1.4m, excluding owner remuneration, on turnover of $5m. Net assets at December 31 were $1.8m.

This purchase follows tha acquisition in 1993 of New York-based Scafa Tornabene Art Publishing. When this company was acquired $5m of the £9.5m raised via a rights issue was earmarked for further purchases.

Mr Mark Weinbaum, who founded the business in 1981, remains president and has agreed a three year contract.

Russian deal for Bula Resources

Bula Resources (Holdings) has reached agreement with The Russian Corporation to acquire its 51 per cent stake in AKI-O-TYR, a joint stock company which holds oil producing licences in western Siberia with proven and probable reserves of more than 500m barrels.

Consideration is $5.6m (£3.83m) and the issue of shares – representing 26 per cent of Bula's enlarged share capital – to The Russian Corporation.

St Modwen makes £2.54m disposals

St Modwen Properties, through its investment subsidiaries, has disposed of three investment properties in Rugeley, Staffordshire, Plymouth and Torquay. Consideration of £2.54m shows a surplus on November 1993 book value of about £440,000.

Audax Properties falls to £273,000

Audax Propertias, a wholly owned subsidiary of Value and Income Trust, reported pre-tax profits down from £365,000 to £273,000 in the year to March 31. Earnings per share on investing activities came to 3.93p (3.99p).

Newman Tonks $6.8m acquisition

Nawman Tonks Group, the building products group, has acquired Hartmann-Sanders, a maker of architectural timber columns based in Georgia for $6.8m (£4.65m) cash.

Hartmann reported 1993 operating profits of $900,000 on sales of $5.1m. Net tangibla assets were $1.5m.

Chemring in New Zealand purchase

Chemring Group has acquired Hutchwilco, a New Zealand supplier of lifejackets, buoyancy aids and flags, from Hargrave Holdings for NZ$4m (£1.5m).

Hutchwilco made a pre-tax profit of NZ$413,000 in the year to April on turnover of NZ$6m. Net assets were NZ$2m.

Cape buys boards business for £3.2m

Cape has bought as a going concern the Pyrok Cementatious Building Boards business from the receivers of Pyrok Group for £3.2m cash. Unaudited management accounts for the nine months to December 31 indicate that Pyrok Group sold boards with a value of £1.7m and incurred a pre-tax loss of £200,000.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.03	11.00	11.00
0100	11.03	10.95	10.96
0130	11.08	11.19	11.19
0200	11.08	12.73	15.32
0230	11.09	30.45	38.05
0300	11.05	30.96	33.57
0330	11.03	19.30	21.89
0400	11.03	19.30	21.89
0430	11.08	12.73	13.32
0500	11.08	12.77	15.26
0530	10.95	11.90	11.90
0600	13.00	11.90	11.90
0630	10.73	13.63	13.63
0700	13.90	14.30	14.50
0730	22.35	21.66	24.84
0800	22.47	28.36	32.06
0830	22.31	57.08	61.10
0900	23.09	60.45	62.77
0930	25.18	56.41	60.35
1000	28.32	47.28	60.90
1030	28.63	27.35	30.75
1100	28.52	26.62	29.84
1130	28.59	26.30	29.46
1200	26.87	25.95	29.05
1230	26.59	25.44	28.40
1300	26.44	24.80	27.82
1330	24.82	24.29	26.80
1400	24.79	24.01	26.85
1430	22.94	23.89	26.42
1500	22.93	23.79	26.40
1530	22.93	23.66	26.27
1600	22.96	23.72	26.35
1630	24.95	35.63	38.29
1700	47.06	35.66	38.35
1730	48.98	36.80	38.25
1800	48.86	25.44	28.08
1830	22.80	23.39	26.16
1900	22.41	23.55	26.17
1930	22.41	20.78	23.36
2000	22.41	13.40	13.40
2030	22.41	20.78	23.37
2100	22.41	47.01	49.80
2130	35.57	47.01	49.80
2200	35.57	40.00	43.39
2230	35.67	31.07	33.86
2300	23.22	18.42	21.01
2330	16.47	12.75	12.75
2400	12.03	11.85	11.85

Prices are determined for every half-hour in each twenty-four hour period. [illegible]

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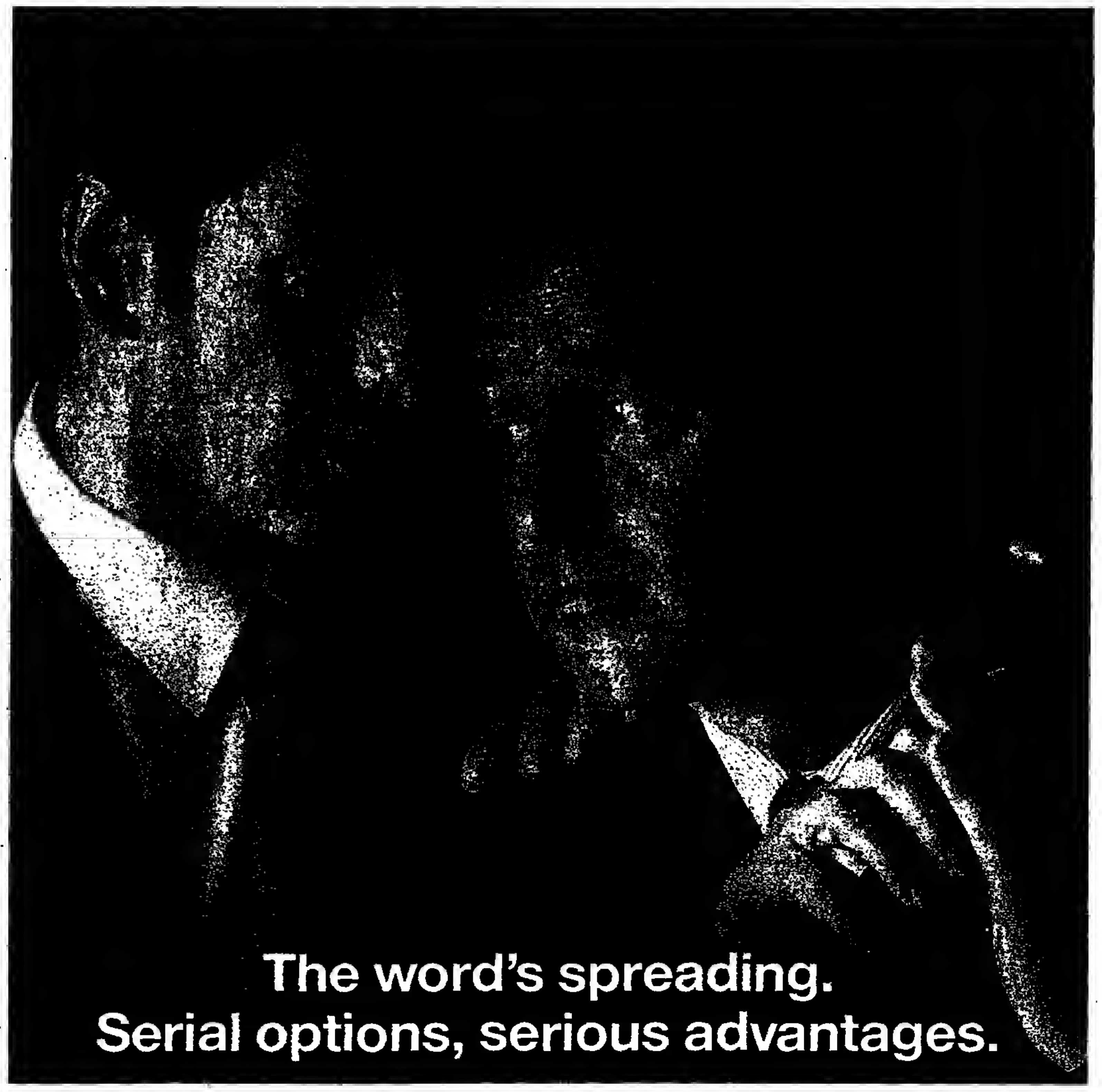


Electronics behind jump at Diploma

By David Blackwell

A surge from its electronics division was behind a 42 per cent advance in interim profits at Diploma, the electronics, building components and special steels group.

Pre-tax profits for the six months to end-March were £11.5m, up from last time's £8.1m which was struck after a £1.1m provision for reorganisation of a subsidiary. Operating profits were ahead 27 per cent at £10.8m (£8.5m).

The electronics division, which accounted for 70 per cent of group turnover, increased operating profits by 36 per cent to £7.5m (£5.5m). Total turnover increased by 22 per cent, from £74m to £90.1m.

Mr Christopher Thomas, chairman, said that trading conditions for most of the group's divisions were more favourable than they had been for several years. He described the increase in the personal computer market as "the significant engine of growth" for Macro and Nortronic, the electronic components distribution subsidiaries.

The semi-conductor market was now at a good stage in its cycle, he said, with further growth likely to emerge from the increasing use of electronic gadgetry in cars.

He stressed the group's commitment to providing top quality service, and said it had won market share by continuing to invest through the recession. It now employed more than 20 electronics service engineers, compared with six at the start of the recession.

The building components division increased operating profits by 22 per cent, from £2.7m to £3.3m, on turnover of £23m (19m).

IG, the steel lintel maker, benefited from an increase in housing starts, recording a 20 per cent rise in both volume and profit.

Mr Thomas said he was optimistic that "goodish conditions" would continue.

The specialist steel division saw further decline in demand from the oil industry, but this was offset by general engineering demand and profits were ahead 20 per cent.

Earnings per share rose from 10.7p to 13p; the interim dividend is increased from 3.5p to 4p.

● COMMENT

Good conditions in the semiconductor market helped Diploma to coma in slightly ahead of expectations. There are firm indications that conditions in the building components market are also improving. The common factor linking the bnsinesses is strong cash flow, and the strategy seems to have worked well so far. However, turnover from electronics distribution is smaller than that of other groups which concentrate on the sector, so the group could face difficult qnestions as vendors look for fewer distributors and manufacturers seek to increase market share by squeezing smaller companies. Full-year profits are likely to be above £25m, giving a prospective multiple of about 18, which looks attractive.

BIT net assets show 18% increase

Net asset value per share of the British Investment Trust showed a 17.7 per cent increase over the year to March 31 1994, rising from 198p to 233p.

Ordinary shareholders' funds grew from £617m to £727m.

Net revenue for the year increased to £20.4m (£14.5m), and after minorities of £3.26m (£1.11m) and preference dividend payments totalling £77,000 (same), attributable profits came out at £17m (£13.4m).

Earnings per share emerged at 4.97p (4.48p) and a proposed final dividend of 2.85p raises the total to 4.85p (4.5p).

Getting hooked on fish and chips in Japan

Paul Abrahams looks at Harry Ramsden's global expansion plans

Tucked between the virtual reality games, roller hockey and super body clinic at Live UFO, a 12 day outdoor extravaganza in Tokyo's Yoyogi Park recently, was a British fish and chips shop.

The incongruous temporary counter was the latest element in a strategy by Harry Ramsden's, the Guiseley, West Yorkshire, quoted fish and chips company, to bring this traditional British dish to Asia.

The shop, serving daily more than 500 portions of haddock and chips covered in traditional salt and vinegar, was an experiment to see whether the Japanese would take to the product.

A similar stall in Hong Kong had led to a joint-venture there, and the opening two years ago of a highly successful restaurant.

Mr Richard Taylor, Harry Ramsden's finance director who spent much of last week in Tokyo scrubbing floors, interviewing Japanese customers and chopping fish – rather slowly according to his Yorkshire-based staff – said he was pleased by the initial results.

The haddock portions had to be reduced in size because demand had been higher than expected and there was a risk of running out of fish.

"The question is whether once they had tried it they would come back again," says Mr Taylor.

The reaction was mixed. Mr Katsumi Hidaka, a 29 year old television director, said, with studious understatement, that his portion was "not terrible". His wife said the fish was "greasy" but she might have it again. Ryu, their one year old son, spat his chips out.

Nevertheless, the product had generally gone down well, according to Ms Katia Garritt, who cooked the fish and chips over the 12 days and normally works at Harry Ramsden's Guiselay headquarters. "Sometimes one member of the family would try it, and then all the others would buy portions," she said.

Mr Taylor said demand had been brisk enough to start looking for partners to set up a restaurant in Tokyo. The group was looking for someone who already has experience in the Japanese fast-food market, he explained.

Harry Ramsden'a hopes to repeat the success of the Hong Kong branch which generates annual sales of £1.5m – the same turnover as the outlet in Blackpool.

"We market the product as Britain's fast-food, and it's proved extremely successful," says Mr Taylor.

Initially, about half of the clientele in Hong Kong were expatriates, but now more than 80 per cent are Chinese. Additional branches are being opened in Singapore this September and in Melbourne next year.

"Following the success of Hong Kong, we've had approaches from a number of countries across Asia and it's easy to waste a lot of time following them up. It's a question of management resources. But Japan is our priority because of the potential size of the market," he says.

Harry Ramsden's believes it has a recipe for success in Asia.

Mr Taylor insists the product is of high quality. "We don't compromise on fish. Wa use the best Norwegian haddock cooked at constant temperatures in oil that is constantly changed. Finally, we hava Harry Ramsden's unique Yorkshire batter," he explains.

"We want Harry Ramsden'a to become a global brand. In the short-term the greatest returns will be in the UK. But it would be a mistake to saturate the UK and then turn to the rest of the world. We'd probably come a cropper when we internationalised. We need experience now," says Mr Taylor.

The company has eight branches in the UK, with four more scheduled for opening this year, as well as one in Dublin.

Food for thought: John Barnes, chairman of Harry Ramsden's, enjoying a fish and chip snack

In Japan, tha company is looking for a joint-venture partner, its preferred route for expansion. Harry Ramsden's keeps between 25 per cent and 49 per cent of the joint-venture, with the remainder held by the local partner.

"Wa could ba greedy and keep a higher share, but you have to provide sufficient incentive to make the venture thrive. The partner is key. Ha, or she, provides knowledge of local tastes, areas and, most importantly, sites," explains Mr Taylor.

By adopting the joint-venture route, Harry Ramsden's would be following the example of Grand Metropolitan's Burger King, which has teamed up with the Seibu Railway's group, and Subway, the US sandwich makers, which forged links with Suntory's First Kitchen.

Each Harry Ramsden's restaurant serves one dish to cater for local tastes. In Glasgow, the dish is haggis; in Hong Kong, it is salad; and in Bristol, for some reason, they serve faggots and peas.

Mr Taylor says he has not decided what would be appropriate for Japanese palates. Some less greasy fish would probably help.

NEWS IN BRIEF

ALLIED TEXTILE Companies has paid a further profit-related £1.66m for Coating Applications (Textiles) satisfied by £811,545 in cash, loan notes and shares.

AZLAN GROUP has agreed to acquire 99.97 per cent of Research & Development, a value added distributor in the network computing market in France, for an initial FFr6m (£710,000). Further consideration is dependent on profits.

BENNETT & FOUNTAIN: Recommended cash offar from Marlowe has closed having received acceptances covering 77.3 per cent of the issued capital.

BETA GLOBAL Emerging Markets Investment Trust received subscriptions for 30m C shares at 100p apiece, comprising 29.52 shares under the placing and 482,135 shares under the open offer. All applications under the open offer have been met in full.

BRITISH BIO-technology Gronp has received acceptances to its rights issue in respect of 2.81m units (93.2 per cent). Each unit comprises four new ordinary shares and three warrants.

CHURCH & CO is making a 115p a share offer for the outstanding preference shares in its A Jones & Sons subsidiary. The total cost will be £77,000.

CONTROL TECHNIQUES has raised its stake in its Italian subsidiary, Control Techniques SpA, from 65 to 92 per cent at a cost of £953,200.

ERA GROUP: recent rights issue accepted in respect of 23m shares (36.4 per cent of issue); issue was underwritten by Smith New Court Securities.

GUINNESS PEAT has received a 97.4 per cent take-up for its rights issue. The sale of Eagle, its Texan fund management offshoot, for $3.4m (£2.27m) cash has been concluded.

LIFE SCIENCES International has received valid elections in respect of 3.82m ordinary shares (2.2 per cent) for the scrip dividend alternative to its final dividend. That will result in the issue of 73,534 new ordinary shares to electing shareholders.

MIDLAND ASSETS: the recent intermediaries offer of new ordinary shares was oversubscribed with valid acceptances being received in respect of 2.35m shares. Applications have been scaled down on the basis of 7 shares for every 10 applied for.

MISYS has received acceptances in respect of 5.66m ordinary shares (94.73 per cent) for rights issue.

RELIANCE SECURITY Group has sold its intruder alarm installation and maintenance activities for £1m cash plus a stock related amount up to £75,000.

ROLLS-ROYCE Power Engineering has lost its High Court appeal against the judgment of Ferris J, given on February 12 and based on an interpretation of its Articles of Association. Accordingly, proposals put to preference holders for repayment of the preference shares will not proceed.

ROXBORO GROUP has received acceptances in respect of 7.88m shares, or 90.5 per cent of the shares made available under the clawback element of the recent open offer.

SIMON ENGINEERING rights issue of 55.9m shares has been taken up in respect of 92 per cent of the offer.

TOMORROWS LEISURE has sold its four north-east based snooker clubs for £375,000 to Powerjudge, a new company formed by Mr David Prinn and others. Also three Quasar clubs are to be managed and operated with immediate effect by Claverton Corporation.

WYNDEHAM PRESS Group has received applications for 3.48m shares (91.85 per cent) under the open offer in connection with the acquisition of Westway Offset, B&P, and Unity Paper Tubes.

Coffee futures break through $2,000 barrier

By Alison Maitland

Coffee futures prices in London and New York continued their exponential rise yesterday, helped by signs there might be fresh interest from investment funds and speculative buyers.

The July robusta futures contract surged through $2,000 a tonne to a new five-year high. It closed at $2,052, up $95 on the day, although profit-taking had trimmed it back from the peak of $2,065 reached after a strong opening in New York.

The second position arabica contract in New York was up 11.1 cents at 126.8 cents a pound in afternoon trading.

Bullish sentiment was fuelled by the fortnightly US report on traders' commitments, published on Friday, which showed speculators and funds had bought less in the last two weeks than believed. "It indicated there was more potential for the funds and specs to come in," said one trader.

"We're looking at an old-fashioned physical squeeze," said Mr Lawrence Eagles, analyst with GNI, the London broker. "Roasters and traders haven't needed to hold security stocks until now and suddenly they've found there isn't enough coffee around."

He said some 3m bags of coffee were availabla in New York warehouses but those holding on to the stocks were waiting for prices to go further. But he warned that the market had reached "ridiculous" levels, "considering that the outcome of the 1994-95 season is still uncertain".

Chinese state gold purchases still lagging

By Our Beijing Staff

China's official gold purchase continued to falter in the first quarter in spite of increased output, according to the Gold Bureau of the Ministry of Metallurgical Industry.

The bureau reported that output in the three months to March grew by 17 per cent compared with last year, but state acquisitions remained at last year's depressed levels, which were down 35 per cent on 1992.

Gold producers are obliged to sell to the state, but in the past year or so have been funnelling gold into the black market at prices well above the state purchase price. The state increased its acquisition price last September to Yn2,986 (US$343) a troy ounce, about 10 per cent below the world price.

Investment drought threatens platinum metals

By Kenneth Gooding, Mining Correspondent

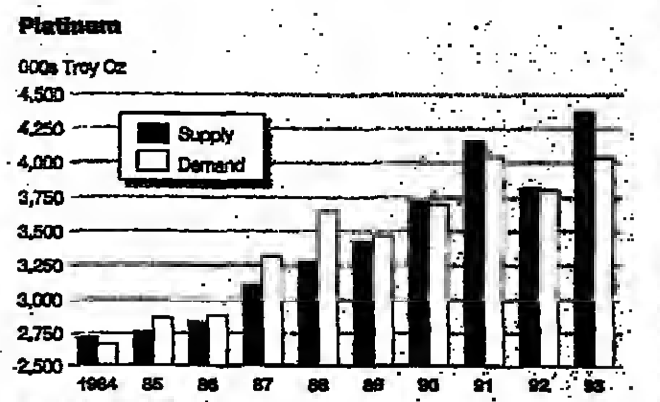
Lack of capital for investment and even for maintenance is threatening to hit production of platinum group metals – essential in many industrial catalysts – in the two biggest producing countries, South Africa and Russia.

According to Johnson Matthsy, the biggest marketing group in the business, as far as South African producers are concerned platinum prices are not so much of a cause for concern as the collapse in the price of rhodium, mainly used in automotive anti-pollution catalysts.

Car makers became very wary about being too dependent of supplies of rhodium after the price of the metal jumped to an unprecedented $7,000 a troy ounce in 1990, when the market was squeezed by a combination of teething troubles at a new Rustenburg refinery in South Africa and a sharp increase in demand from the automotive industry because of tightening international anti-pollution legislation.

By making changes in their use of rhodium and running down stocks, car makers, particularly the Japanese, have been instrumental in pushing the rhodium price below $600 an ounce.

Platinum



Source: Johnson Matthey

In its latest annual market survey, Johnson Matthey suggests: "We do not foresee any significant deterioration in the [rhodium] price but neither are we confident that it will exceed $1,000 before the end of 1994."

JM points out that operating margins at the two biggest South African producers, Impala and Rustenburg, fell from 94 per cent in 1989 to 26 per cent in the financial year to June, 1993, because of falling revenues and increasing costs.

"All the [South African] mining companies have been forced to re-evaluate their spending plans; between 1990 and 1993 several mining operations were mothballed or closed, while a number of planned expansion projects have been shelved. The focus is now on containing costs and improving efficiencies.

"Continued cuts in capital expenditure could eventually threaten output if investment drops below the threshold necessary to maintain the mining infrastructure," the survey points out.

There also remains the possibility that the $494m Northam mine, controlled by Gold Fields of South Africa, will be forced into closure, Johnson Matthey suggests. Not only has Northam, the world's deepest platinum mine, been battling low prices but serious mining difficulties cut predicted output by half last year and it incurred substantial operating losses.

Meanwhile, in Russia most platinum comes from Norilsk, one of the federation's new joint stock companies. Mr Michael Steel, JM's market research director, says that Norilsk's nickel production was reported to have dropped by 45 per cent last year and he believes the fall in platinum metals output was even greater.

Norilsk's plant, built in the 1940s, has suffered years of neglect and this resulted in at least one major accident – in in October 1993 one of the furnaces in the original nickel smelter split and molten metal was spilled, causing a fire that burned for more than eight hours.

There were also reports that there had been a separate incident in which a roof at the plant collapsed.

More evidence of the plant's decay came early this year when a strong wind destroyed an emissions stack and the debris fell on top of a pedestrian gallery through which supply lines ran.

"The funds for essential maintenance, let alone for further development of the mining and processing facilities at Norilsk, are unlikely to come from the hard-pressed Russian government. Future investment is therefore largely dependent on the success of the limited privatisation scheme currently under way," says Johnson Matthey. There is little short-term prospect of substantial western investment in the plant.

Despite the clouds over the medium-term production outlook, South Africa's previous expansion programmes, mainly to cope with expected increased use by the car industry, created a substantial platinum supply surplus last year, one of 340,000 ounces compared with a surplus of 20,000 ounces in 1992.

Johnson Matthey says that demand for platinum rose by 6.3 per cent to 4.04m ounces, matching the record set in 1991, while supply jumped by 15 per cent to a record 4.38m ounces.

Mr Steel said that the surplus was likely to be eliminated this year because the surge in South African supplies was over.

Consequently, Johnson Matthey expects the average platinum price this year to be above $400 a troy ounce, up from a 1993 average of $374.06, itself 6 per cent higher than in 1992, "with a maximum of $430 if no serious [political] unrest occurs in South Africa." Advancing demand and continned specnlative activity "should give solid support at about $380".

Platinum 1994: Free from Johnson Matthey, 78 Hatton Garden, London EC1N 8JP, UK.

MARKET REPORT

Corrections trim base metals gains

The bull-run in base metals prices continued at the London Metal Exchange yesterday, although some necessary downward reactions were taking place, dealers said.

COPPER faltered near the $2,200-a-tonne level for three months delivery, which has assumed psychological importance, and, after peaking at a fresh 14-month high of $2,195, settled back below $2,180.

NICKEL trading was again hectic and volatile, with the three months price coming within a whisker of $6,600 a tonne in the morning, before an overdue technical correction set in. From a high of $6,590, the price plunged to $6,350 before ending at $6,450, up $50 on balance.

Although the threat of disruption to Falconbridge supplies from Norway had been removed by the calling off of the dock workers' strike, the nickel market was still nervous about a strike at Inco's Sudbury facilities, traders said.

TIN prices broke higher in after hours "kerb" trading following the confirmation of bullish chart signals above $5,600 a tonne. With the market emerging as the latest beneficiary of speculative interest, the three months price ended at $5,725, up $145.

ZINC extended its gains on the kerb, with the triggering of stop-loss buying orders stops running three months metal up to a new high of $1,011 a tonne, despite the absence constructive fundamentals. Although mine output of zinc fell steeply in the first quarter of the year, according to latest International Lead and Zinc Study Group data, refined production is rising, and stocks are increasing.

Three months **ALUMINIUM** hit a 22-month high of $1,360 a tonne, but proved unable to push up towards the $1,373 chart objective, and closed at $1,352, an $8 gain.

London's precious metals continued quiet in the afternoon after the US markets opened with little direction being offered except in **SILVER**, which came under pressure and closed 7 cents down at $5.35¼ a troy ounce.

The London Commodity Exchange **COCOA** market remained dull throughout the day. Buying in New York arrested the slide in the afternoon but trading remained technically-dominated.

The July futures position opened £4 down at £953 a tonne before sinking to £941. But the steadier-than-expected New York opening lent support and some of the losses were recouped by late afternoon. July closed at £951.

Compiled from Reuter

Nutmeg exporters in fresh effort to stabilise market

By Canute James in Kingston, Jamaica

Nutmeg exporters in the two main producing countries have agreed on a plan to stabilise and then to increase world market prices for the spice, but have steered clear of recreating the cartel that collapsed six years ago.

The agreement follows discussions between the Grenada Co-operative Nutmeg Association and 35 of the leading exporters in Indonesia, according to Grenadian officials. Indonesia produces about 75 per cent of the world's nutmeg, with the eastern Caribbean island having a 23 per cent share.

"We must have some type of continuing dialogue with Indonesia because we feel that Grenada can compete successfully on the international market once we do not have Indonesia dumping their nutmeg on the market at very low prices," said Mr Cliff Robertson, chairman of the Grenadian association. The recreation of the cartel, he said, would "not be in Grenada's interest".

Industry officials said that, while not setting prices, the two producer groups would co-operate in monitoring the volume of nutmeg that was offered for sale on the world market.

They were not expected to take the more radical step of destroying stocks and the anticipated improvement in prices would be gradual, the officials added.

The new agreement has come after two years of discussions following a slump in prices. The fall has affected Grenada more as the island's economy is more heavily dependent on the spice than Indonesia's.

Producers in the two countries would try to keep supplies to the world market at about 9,500 tonnes a year, marginally less than current world demand and 2,500 tonnes less than their current combined production, the industry sources said.

When the cartel was established the Grenadian association and Aspin, the Indonesian producers' group, agreed minimum prices for premium and lower grade nutmeg that were about four times higher than the going price of $1,000.

The cartel collapsed following changes in the Indonesian government's economic policy, which saw extensive deregulation. Aspin was deprived of the power to set prices and control supplies to the market and, much to the dismay of the Grenadians, increased Indonesian shipments pushed prices back to pre-cartel levels.

Indonesian producers had now agreed with the Grenadians that an increase in the price of nutmeg was needed, said Mr Robertson. "We agreed that the dialogus should be ongoing and we will meet again at the end of the year to discuss the progress of the market and see how best we can stabilise prices."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1324-5	1352-3
Previous	1325-6	1352.5-3.5
High/low	1327	1360/1347
AM Official	1327-7.5	1355-5.5
Kerb close		1352-3
Open int.	247,989	
Total daily turnover	98,084	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1320-30	1330-40
Previous	1320-30	1330-40
High/low		1340
AM Official	1330-5	1335-40
Kerb close		1330-40
Open int.	3,461	
Total daily turnover	1,035	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	486.5-7.5	504.5-5
Previous	481.5-2.5	498.5-9
High/low		510/498
AM Official	482.5-3.5	501-1.5
Kerb close		504-5
Open int.	35,344	
Total daily turnover	15,090	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6270-80	6350-60
Previous	6285-95	6365-70
High/low	6360/6350	6595/6260
AM Official	6360-70	6470-80
Kerb close		6400-10
Open int.	59,321	
Total daily turnover	21,611	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5580-5	5650-55
Previous	5500-10	5560-70
High/low		5625/5560
AM Official	5575-80	5640-5
Kerb close		5725-30
Open int.	16,635	
Total daily turnover	10,455	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	980-1	1003-4
Previous	956.5-7.5	978-9
High/low	976	1010/980
AM Official	976-7	989-1000
Kerb close		1009-10
Open int.	102,418	
Total daily turnover	[illegible]	

■ COPPER, grade A ($ per tonne)

[illegible]

■ LME AM Official £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX)

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
May	383.0	+2.3	-	-	-	-
Jun	383.7	+2.2	384.5	379.6	71,212	23,431
[illegible]						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	113.30	-0.10	113.25	113.15	183	28
Jul	112.85	-0.40	112.95	112.55	720	43
[illegible]						

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

Tea

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	918	-13	915	914	105	33
Jul	952	-5	955	941	20,738	2,426
[illegible]						

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

[illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)

[illegible]

■ CRB Futures (Base: 1967=100)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	67.375	+0.225	67.700	67.000	25,851	8,084
Aug	67.075	+0.175	67.300	66.625	18,392	7,868
[illegible]						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]						
Dec	44.900	+0.525	45.000	43.850	2,810	134
Feb	44.800	+0.275	45.000	44.100	535	45
Total					31,801	4,794

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
May	45.575	+0.075	45.800	44.900	207	16
Jul	45.725	+0.300	45.900	43.650	5,781	1,673
Aug	43.750	+0.175	43.900	41.850	1,548	520
Feb	51.800	+0.250	51.700	49.700	238	23
Mar	50.750	+0.200	51.250	49.525	24	2
May	52.100	+0.700	52.100	51.400	13	1
Total					7,813	2,232

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1300	75	105	22	31
1350	45	78	43	50
1400	25	52	72	75
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
2100	121	124	42	71
2150	92	98	62	94
2200	67	77	87	121
■ COFFEE LCE	Jul	Sep	Jul	Sep
1800	262	277	11	47
1850	218	242	17	62
1900	180	209	34	79
■ COCOA LCE	Jul	Sep	Jul	Sep
900	61	61	9	18
925	43	74	18	26
950	29	59	27	36
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1500	-	-	15	32
1550	85	-	-	46
1600	53	64	45	67

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jul)

		+or-
Dubai	$14.73-4.80w	-0.245
Brent Blend (dated)	$16.16-6.18	-0.39
Brent Blend (Jul)	$16.13-6.14	-0.23
W.T.I. (1pm est)	$17.57-7.58w	-0.24

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$181-183	
Gas Oil	$151-152	-2.0
Heavy Fuel Oil	$84-86	-1.5
Naphtha	$156-157	-0.5
Jet Fuel	$164-165	-3.0

Petroleum Argus Estimates

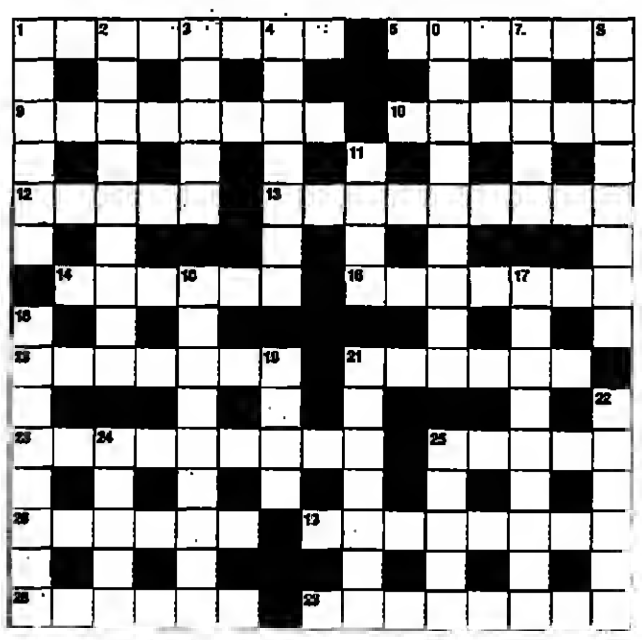
■ OTHER

Gold (per troy oz)♣	$380.20	-0.15
Silver (per troy oz)♣	535.50c	-7.00
Platinum (per troy oz.)	$398.15	-1.25
Palladium (per troy oz.)	$135.10	-0.65
Copper (US prod.)	107.00c	+4.00
Lead (US prod.)	35.00c	-1.13
Tin (Kuala Lumpur)	14.21r	+0.12
Tin (New York)	262.50c	+6.00
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	128.48p	+0.42*
Sheep (live weight)†♠	149.78p	-9.13*
Pigs (live weight)	84.19p	+4.74*
Lon. day sugar (raw)	$288.50	-3.90
Lon. day sugar (wte)	$344.50	+1.00
Tate & Lyle export	£304.00	-4.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	$138.50	
Wheat (US Dark North)	£150.0x	
Rubber (Jun)♥	71.75p	-0.25
Rubber (Jul)♥	72.00p	-0.25
Rubber(KL RSS No1 Jun)	256.50m	-1.00
Coconut Oil (Phil)§	$595.0z	+5.0
Palm Oil (Malay.)§	$477.5y	
Copra (Phil)§	$371.0	
Soyabeans (US)	£193.0y	
Cotton Outlook A Index	85.75c	+0.05
Wooltops (64s Super)	425p	+3

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Jun/Jul. y Jun. e Jul. x Apr/May. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,455 Set by DINMUTZ



ACROSS

1 Going by air, the longer way into Scotland? .... (4,4)
5 .... that is the trouble with the airways (6)
9 Vein lines of Don Juan, for example? (4,4)
10 Rank set free (6)
12 Find out how to make money after fifty (5)
13 Public beef consultant? (9)
14 His appeal decisions are sometimes index-linked (6)
16 In Noel's play, rook is next to king .... breather required! (7)
19 Fluter's composition is quiet and tranquil (7)
21 Temporary stagecraft (6)
23 Seaweed in bottom corner (3-6)
25 Such relief-work amounted to nothing (5)
26 Sovereign remedy from Felix Irving (6)
27 Associate is an outstanding sort, to admit endless adversity (2-6)
28 Effects of nights out? (6)
29 Like the relaxation classes? (8)

DOWN

1 House is small .... let's move into hydros (6)
2 Offenbach's duettists of force? (9)
3 Racecourse rent advanced (5)
4 Paint thinner one on pitch (7)
6 Steady job but a bit of a fiddle! (5,4)
7 Its *oriental dishes* cannot be taken out (5)
8 With fervour, eland try to break out.... (9)
11 .... in the same place is a wader! (4)
15 Fashiooable spartment in Gsteshead is lifting the spirits (9)
17 Ruler manufacturer of Warwick (4-5)
18 Shortest of wild bets must admit chance (8)
20 Records of solid fuel (4)
21 Name one wild flower (7)
22 Scorched hill, clear at the foot (6)
24 Justification for one visiting Bali resort? (5)
25 Noisy creatures .... take a hundred lines! (5)

Solution to Saturday's prize puzzle on Saturday May 28.
Solution to yesterday's prize puzzle on Monday May 30.

JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Traders stand by for news on US interest rates

By Terry Byland, UK Stock Market Editor

The London stock market joined with other European bourses in holding its breath yesterday as it waited for the US Federal Reserve Open Market Committee to meet today. UK analysts appeared to be expecting, indeed hoping for, the Fed to announce a decisive increase in its key interest rates, perhaps as much as 50 basis points in both the Federal discount rate and Federal Funds rate. Such a move, while perhaps discomforting for markets in the short run, would be regarded as the best way to restore stability to global bond markets, and thus set the background for a genuine advance in share prices.

With little else but the FOMC meeting to focus on, UK equities lacked direction as they made a start to the new trading account with a relatively lightly traded session. An attempt to move forward was thwarted when UK government bonds proved unable to develop a lasting trend, and the FT-SE 100 Index moved in a narrow range around its previous close.

The final reading showed the FT-SE 100 at 3,115.6 for a net loss of 3.6. Earlier, the index had been 14.4 ahead, helped by the latest domestic producer price data, which was in line with expectations and regarded as neutral on inflation pressures.

Other hurdles on the domestic economy lie ahead this week, notably tomorrow, when the market faces the latest retail price index, and data on unemployment, average earnings and public sector borrowing. The concensus is for a monthly rise of 1.3 per cent in the retail price index.

Account Dealing Dates		
*First Dealings:		
Apr 25	May 16	Jun 6
Option Declarations:		
May 12	Jun 2	Jun 16
Last Dealings:		
May 13	Jun 3	Jun 17
Account Day:		
May 23	Jun 13	Jun 27

*New time dealings may take place from two business days earlier.

But these are overshadowed by the meeting of the Federal Reserve's Open Market Committee today, which was reflected by firmness in the US currency towards the close of trading in London yesterday. Statistics on US industrial output and capacity utilisation appeared to leave unchanged the likelihood of a tightening in US credit policy.

The UK market slightly underperformed other European markets, reinforcing perceptions that the UK is seen as closer to the US in terms of the economic cycle, and therefore more likely to see domestic interest rates rise while France and Germany look for further reductions.

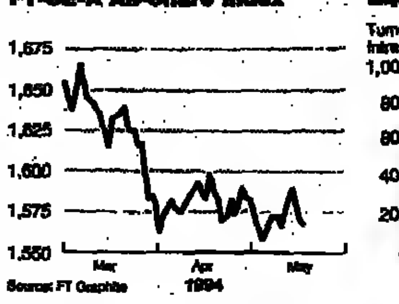
Trading volume, as recorded by the Seaq electronic trading system, was about 18 per cent down from Friday's level, at 548.4m shares. Friday afternoon saw increased activity when securities houses unwound positions as the trading account came to its end; 671.7m shares were traded in that session for a retail worth of £1.43bn.

Second line issues played a subdued role, and the FT-SE Mid 250 Index fell 14.9 to 3,706.9 yesterday. The FT-SE 100 stocks found some impetus from the stock index futures market, a factor of no effect on the second-liners.

Market analysts were taking a cautious view at the beginning of a week in which so much will depend on developments across the Atlantic. Although nervous regarding US rate policy, most UK analysts believe that Mr Kenneth Clarke, the British chancellor of the exchequer, will be unwilling to raise domestic interest rates in the near term in what Kleinwort Benson describes as "an environment of economic slowdown".

Nikko commented that UK consumers do not appear to have reacted sharply to the tax increases introduced this month, although it adds that consumer related companies are "still finding things difficult".

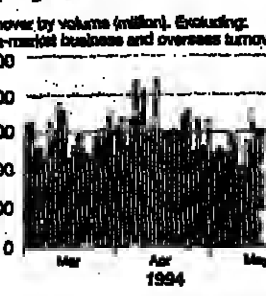
FT-SE-A All-Share index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3115.6	-3.6	FT Ordinary Index	2462.8	-8.6
FT-SE Mid 250	3706.9	-14.9	FT-SE-A Non Fins p/e	20.26	(20.30)
FT-SE-A 350	1577.2	-2.8	FT-SE 100 Fut Jun	3106.0	-12.0
FT-SE-A All-Share	1568.74	-2.89	10 yr Gilt yield	8.12	(8.11)
FT-SE-A All-Share yield	3.70	(3.70)	Long gilt/equity yld ratio:	2.25	(2.26)

Best performing sectors

1 Tobacco ... +1.5
2 Telecommunications ... +1.0
3 Retailers, Food ... +0.9
4 Health Care ... +0.6
5 Extractive Inds ... +0.5

Worst performing sectors

1 Gas Distribution ... -5.6
2 Breweries ... -1.5
3 Oil, Integrated ... -1.0
4 Engineering, Vehicles ... -0.8
5 Printing, Paper & Pckg ... -0.7

Market rejects Gas tale

The stock market was alarmed yesterday at a story in the weekend press that British Gas may be forced into cutting its dividend by the end of the year, because of the impact of regulatory pressures on its profits. Gas is scheduled to report first-quarter results on Thursday.

The shares were by far the worst performer in the FT-SE 100 Index, falling 9¼ to 284½p ex-dividend, and were the most heavily traded with more than 18m changing hands.

Gas shares have moved erratically in recent weeks, plunging to 280p on April 28 following a profits warning, and racing up to more than 300p last week as the market gave a positive reaction to the Department of Trade/Ofgas report on competition and pricing in UK domestic gas supply.

Many analysts were sceptical of the dividend threat story. "Gas declined to discuss the dividend when it made its profits warning in April, and a dividend cut seems most unlikely this year," said one. Another said that Gas will pay maintained dividends in the near term, although its ability to do so post-1996 depends on progress on cost-cutting. "There is a long term risk to Gas's dividend but not so in the short term," he added.

De La Rue steps in

Market speculation turned to fact as De La Rue confirmed that it was the mystery predator which had approached paper manufacturer Portals, the announcement speeding the two companies' shares in opposite directions.

Portals continued its upward momentum, first seen a week ago, with the shares ending another busy session 40 ahead at 806p, making a net gain of 28 per cent over the past week. In contrast, De La Rue dropped 21 to 857p on fears that the bank note printer may have to pay too high a premium to secure Portals, and worries over how it would be financed. A mixture of cash – the company has around £250m – and paper was thought the most likely avenue.

With Portals having a solid reputation in the City as a well run profitable company, many analysts felt that the premium that an agreed merger would require would be too high a price to pay, while a hostile bid was deemed a non-starter. A bid price of £9 a share was being mooted late yesterday, a figure which would put Portals on a price/earnings ratio of 21 on 1995 earnings forecasts, a hefty 70 per cent premium to the market. Others also questioned De La Rue's timing, with the paper and printing market well off the bottom of a year ago.

Full-year figures from brewing and retailing group Whitbread met market forecasts, although the shares ran into profit-takers and slid 9 to 563p. Drinks specialists blamed the fall, as well as weakness in some of the other stocks yesterday, on the good run in the sector recently, as well as on the lack of scintillating news needed to maintain the momentum. Bass, which reports tomorrow, was one such casualty, retreating 17 to 550p. Greenalls suffered a similar fate, losing 9 at 440p.

Speculation continued to surround the Guinness share price with suggestions that LVMH, its French partner, may use the options market to offload some of its Guinness shares ahead of the agm on Thursday. The French group has agreed to reduce its holding in Guinness from 24 to 20 per cent by June next year. Guinness shares slid 6 to 490p.

The overall weakness in the market took its toll of the banks sector, where most of the business involved heavy switching from National Westminster into Barclays. The latter ended a net 3 off at 537p on hefty turnover of 4.5m, while the former fell 14 to 449p on 3.9m traded. The switching operation was said to have triggered additional straight selling of NatWest.

Abbey National was recommended by one of the big integrated houses and initially edged up to 407p before slipping back to close marginally easier at 402p.

General Accident was the outstanding performer in composite insurances, the shares adding 9 at 568p. A switching operation out of Prudential, 2 off at 305p, and into Legal & General left the latter 5 stronger at 455p.

National Power was the star performer in the utilities sector, responding to recommendations both new and in the recent past from various broking firms. SG Warburg Securities issued a strong buy note on National Power and PowerGen late last week while Lehman Brothers, the US brokerage house, and James Capel, the leading UK agency broker, were said to have given the stock a big push yesterday. At the close National Power shares were 15 higher at 443p after good turnover of 2.6m. PowerGen added 10 at 475p.

The Scottish generators, on the other hand, were hit by profit-taking, Scottish Power losing 10 to 368p.

Channel tunnel operator Eurotunnel remained under a cloud in spite of a company denial that it faced a deadline at midnight yesterday to secure further bank loans from Japanese bank creditors.

The shares relinquished 12 to 420p, on these financial concerns with sentiment further weakened by reports that the well-flagged rights issue would be announced today. However, several analysts discounted such a likelihood today.

The company yesterday announced that the first fare-paying freight service through the tunnel will begin on Thursday, and forecast it will have 50 per cent of cross channel car and coach service by 1996.

News of the start of operations at Eurotunnel and optimism on traffic levels damaged sentiment in P&O, the ferry operator. The shares gave up 10 to 690p, in trade of 1.9m.

Shares in Rolls-Royce jumped 6 to 188p, in hefty trading of 7.7m shares, with US investment bank Lehman Brothers said to have been among the day's big buyers.

Profit-taking left British Aerospace 10 lighter at 493p. The company said the total of overseas owners of its shares had exceeded 29.5 per cent, the permitted limit under its articles of association. Foreign owners that last acquired the stock will now be forced to sell the shares to reduce the total to the permitted figure.

Buoyant metal prices continued to boost international mining group RTZ and the shares gained another 7 to 865p.

Press speculation on the National Lottery helped Rank Organisation, which is in a consortium believed to be one of the front runners. The shares added 5 at 408p.

NatWest Securities reiterated its positive stance on Boots, up 5 at 549p, and Storehouse, ahead 2 at 219p.

MARKET REPORTERS:
Steve Thompson,
Christopher Price,
Joel Kibazo,

■ Other statistics, Page 25

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (41).
BANKS (1) Total Bank, BUILDING & CNSTRN (1) Spandex, BLDG MATLS & MCHTS (3) Johnston, Rostel, Russell (A), DISTRIBUTORS (1) Scanner, DIVERSIFIED INDLS (2) ELECTRNC & ELECT EQUIP (3) ENGINEERING (3) ASW, Excalibur, EXTRACTIVE INDS (3) HEALTH CARE (1) Bader Int'l., HOUSEHOLD GOODS (1) INVESTMENT TRUSTS (4) INVESTMENT COMPANIES (3) MEDIA (1) City of London PR, OIL EXPLORATION & PROD (3) OTHER SERVS & BUSNS (1) Shelton (M), PRTNG, PAPER & PACKG (3) RETAILERS, FOOD (1) Park, RETAILERS, GENERAL (1) Austin Reed, SUPPORT SERVS (3) Kalamazoo, MMT, Serna, TEXTILES & APPAREL (1) Rexmore, TRANSPORT (2).
NEW LOWS (117).
GILTS (3) BANKS (1) ABN, BREWERIES (1) Greene King, BUILDING & CNSTRN (3) Berkeley, Prowting, BLDG MATLS & MCHTS (7) CHEMICALS (1) AGA, DISTRIBUTORS (3) Electrcomps., Heritage, ELECTRNC & ELECT EQUIP (2) Greasby, Johnson Elect., ENGINEERING (7) David Brown, Sadia, GSE, Metalrax, Richards, TI, Wheesoe, EXTRACTIVE INDS (2) English China Clays, Western Deep, FOOD MANUF (3) Cranswick, Unilever NV, HEALTH CARE (3) Haemocell, Isercare, HOUSEHOLD GOODS (4) Creighton Naturally, Le Creuset, Silentnight, Tomkinsons, INSURANCE (7) Abtrust Lloyds, Angerstain Wrts., Bradstock, HCG Lloyds, Masthead, PWS, Syndicate Capital, INVESTMENT TRUSTS (10) INVESTMENT COMPANIES (7) LEISURE & HOTELS (1) Mitvall, LIFE ASSURANCE (1) Trans B 8pc Pf., MEDIA (3) Black (AC), EMAP, Mirror, MERCHANT BANKS (2) OIL EXPLORATION & PROD (2) Pitancrieff, Seafield Res., OTHER FINANCIAL (3) OTHER SERVS & BUSNS (1) General Motors Units, PHARMACEUTICALS (1) PRTNG, PAPER & PACKG (3) AG, Jarvis Porter, Waddington (J), PROPERTY (8) RETAILERS, FOOD (3) Brake Bros., M & W, Tesco Capital 9pc Cv Bd 2005, RETAILERS, GENERAL (3) SUPPORT SERVS (2) Rentokil, Virtuality, TEXTILES & APPAREL (1) Shani, TRANSPORT (2) Air London, Eurotunnel Units, AMERICANS (8) CANADIANS (2).

EQUITY FUTURES AND OPTIONS TRADING

Early gains in stock index futures were reversed in technical trading as dealers awaited the outcome of today's US Federal Reserve Open Market Committee meeting, *writes Joel Kibazo.*

A firm start to trading, after the June contract on the FT-SE 100 opened at 3,126, encouraged further buying led by independent traders. The 9.30am release of UK producer output prices data showed the figures to be in line with expectations, and a further bout of buying shortly after the figures' release sent the contract to the day's peak of 3,141.

Technical trading, as dealers focused on today's FOMC meeting that is expected to result in an increase in US interest rates, reversed earlier gains, leaving the contract to drift lower and to ignore a firm start to trading in New York in the afternoon.

June fell to a low of 3,104 before steadying to close at 3,106, a 7-point discount to the underlying cash market. However, dealers reported an improvement in June in after-hours' trading. Volume was 13,570 contracts.

An active session in the traded options brought turnover of 31,767 lots. The FT-SE 100 option traded 11,280 lots, although the Euro FT-SE option had a poor day with a mere 1,040 dealt. British Gas was the busiest stock option with a total of 3,907 contracts transacted.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3126.0	3106.0	-12.0	3141.0	3104.0	13570	53476
Sep	3147.0	3122.0	-12.0	3154.0	3137.0	1002	2113
Dec	3156.0	3133.0	-13.0	3158.0	3158.0	1	201

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3727.0	3715.0	-15.0	3727.0	3715.0	147	3918

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	3718.0	-	-	-	-	891

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3113) £10 per full index point

	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P	3300 C	3300 P
May	163½	1½	113½	2	64½	6½	28½	19½	7	54½	1½	103	½	153	½	203
Jun	170½	18½	130	28	94½	40½	66	61½	43	88½	24	121	12½	161	6	206½
Jul	188½	28½	153	42	118	57½	99	78½	66½	105	45½	135½	31½	172½	19½	213
Aug	216	47	178	66	145	77½	115½	98½	90	123½	69½	153	51	186½	38	224½
Dec†			282½	107½	-	-	202½	145			124	196			83½	257

Calls 7,245 Puts 4,078

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P	3275 C	3275 P
May	183½	1	134½	1½	85½	3	42½	12	14	32½	3	70½	1	119	½	169
Jun	181	11	140½	18½	111½	30½	78	46	53	72	33	111½	18	137½	10	178½
Jul	208½	22½			135½	48			78	90			38½	150½		
Sep	241½	46			172	77			115	117½			71	172		
Dec†	280½	79			214	109½			159½	150½			112	201½		

Calls 929 Puts 96 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3700		3750		3800		3850		3900		3950		4000		4050	
May	26	17	8	47	1½	90	½	130								

Calls 8 Puts 8 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	5,900	67	+1¼
Abbey National†	1,900	402	-1
Albert Fisher	800	56	+¼
Allied-Lyons†	3,200	590	+9
Anglian Water	140	476	+3
Argos	864	358	+2
Argyll Group†	5,900	267	[illegible]
Arjo Wiggins†	779	292	[illegible]
Assoc. Brit. Foods†	196	561	[illegible]
Assoc. Brit. Ports	582	257	[illegible]
BAA†	522	961	[illegible]
BAT Inds.†	3,200	440½	[illegible]
BET	4,800	128½	[illegible]
BICC	2,500	433	[illegible]
BOC†	544	698	[illegible]
BP†	9,700	401½	[illegible]
BPB Inds.	1,300	308	[illegible]
BT†	4,700	376	[illegible]
BT (Pt Pd)	10,000	257½	[illegible]
BTR†	4,400	387½	[illegible]
Bank of Scotland†	2,000	191½	[illegible]
Barclays†	4,500	537	[illegible]
Bass†	2,700	550	[illegible]
Blue Circle†	3,300	290	[illegible]
Booker	108	402	[illegible]
Boots†	3,400	549	[illegible]
Bowater†	867	436	[illegible]
Brit. Aerospace†	1,100	493	[illegible]
British Airways†	3,200	384	[illegible]
British Gas†	18,000	284½	[illegible]
British Land	170	397	[illegible]
British Steel†	8,800	145¼	[illegible]
Bunzl	1,800	165	[illegible]
Burmah Castrol†	498	861	[illegible]
Burton	3,000	55½	[illegible]
Cable & Wire†	2,400	456	[illegible]
Cadbury Schweppes†	1,400	466	[illegible]
Calor Group	284	315	[illegible]
Comm. Union†	675	[illegible]	[illegible]
Cookson	2,100	[illegible]	[illegible]
Courtaulds†	928	[illegible]	[illegible]
Dalgety	39	[illegible]	[illegible]
De La Rue†	390	[illegible]	[illegible]
Dixons	270	[illegible]	[illegible]
Eastern Elect.	167	[illegible]	[illegible]
East Midland Elect.	353	[illegible]	[illegible]
Eng China Clays	438	[illegible]	[illegible]
Enterprise Oil†	73	[illegible]	[illegible]
Eurotunnel Units	100	[illegible]	[illegible]
FKI	1,500	[illegible]	[illegible]
Fisons	1,000	[illegible]	[illegible]
Foreign & Col. I.T.	1,000	[illegible]	[illegible]
Forte†	184	[illegible]	[illegible]
Gen. Accident†	1,600	[illegible]	[illegible]
General Elect.†	3,700	[illegible]	[illegible]
Glaxo†	8,100	[illegible]	[illegible]
Glynwed	1,600	[illegible]	[illegible]
Granada†	1,400	[illegible]	[illegible]
Grand Met.†	4,800	[illegible]	[illegible]
GUS†	1,000	[illegible]	[illegible]
GRE†	2,000	[illegible]	[illegible]
GKN	405	[illegible]	[illegible]
Guinness†	2,700	[illegible]	[illegible]
HSBC (75p shs)†	1,400	[illegible]	[illegible]
Hammerson	682	[illegible]	[illegible]
Hanson†	15,000	[illegible]	[illegible]
Harrisons Crosfield	558	[illegible]	[illegible]
Hays	824	[illegible]	[illegible]
Hillsdown	713	[illegible]	[illegible]
IMI	2,100	[illegible]	[illegible]
ICI†	1,400	[illegible]	[illegible]
Inchcape†	909	[illegible]	[illegible]
Johnson Matthey	140	[illegible]	[illegible]
Kingfisher†	1,000	[illegible]	[illegible]
Kwik Save	82	[illegible]	[illegible]
Ladbroke†	4,200	[illegible]	[illegible]
Land Securities†	719	[illegible]	[illegible]
Laporte	243	[illegible]	[illegible]
Legal & General†	1,300	[illegible]	[illegible]
Lloyds Abbey	1,400	[illegible]	[illegible]
Lloyds Bank†	1,900	[illegible]	[illegible]
LASMO	959	[illegible]	[illegible]
London Elect.	287	[illegible]	[illegible]
Lonrho	1,700	[illegible]	[illegible]
Lucas	1,200	[illegible]	[illegible]
MEPC†	102	[illegible]	[illegible]
MFI	749	[illegible]	[illegible]
Manweb	234	[illegible]	[illegible]
Marks & Spencer†	2,900	[illegible]	[illegible]
Midlands Elect.	381	[illegible]	[illegible]
Morrison (Wm.)	665	[illegible]	[illegible]
NFC†	710	[illegible]	[illegible]
NatWest Bank†	3,900	[illegible]	[illegible]
National Power†	2,600	[illegible]	[illegible]
Next	493	[illegible]	[illegible]
North West Water†	1,300	[illegible]	[illegible]
Northern Elect.	48	[illegible]	[illegible]
Northern Foods†	1,600	[illegible]	[illegible]
Norweb	38	[illegible]	[illegible]
Pearson†	1,300	[illegible]	[illegible]
P & O†	1,900	[illegible]	[illegible]
Pilkington	1,400	[illegible]	[illegible]
PowerGen†	1,200	[illegible]	[illegible]
Prudential†	5,100	[illegible]	[illegible]
RMC†	366	[illegible]	[illegible]
RTZ†	3,600	[illegible]	[illegible]
Racal	101	[illegible]	[illegible]
Rank Org.†	846	[illegible]	[illegible]
Reckitt & Colman†	814	[illegible]	[illegible]
Redland†	1,200	[illegible]	[illegible]
Reed Intl.†	1,200	[illegible]	[illegible]
Rentokil†	589	[illegible]	[illegible]
Reuters†	3,700	[illegible]	[illegible]
Rolls Royce†	7,700	[illegible]	[illegible]
Ryl Bk Scotland†	1,000	[illegible]	[illegible]
Royal Insurance†	784	[illegible]	[illegible]
Sainsbury†	4,600	[illegible]	[illegible]
Schroders	5	[illegible]	[illegible]
Scottish & New.†	932	[illegible]	[illegible]
Scot. Hydro-Elect.	177	[illegible]	[illegible]
Scottish Power†	2,200	[illegible]	[illegible]
Sears†	5,400	[illegible]	[illegible]
Sedgwick	2,000	[illegible]	[illegible]
Seeboard	244	[illegible]	[illegible]
Severn Trent†	318	[illegible]	[illegible]
Shell Transport†	3,600	[illegible]	[illegible]
Siebe†	703	[illegible]	[illegible]
Slough Ests	35	[illegible]	[illegible]
Smith (W.H.) A	282	[illegible]	[illegible]
Smith & Nephew†	2,500	[illegible]	[illegible]
SmKl Beecham†	1,600	[illegible]	[illegible]
SmKl Beecham Uts.†	1,000	[illegible]	[illegible]
Smiths Inds.	95	[illegible]	[illegible]
Southern Elect.†	418	[illegible]	[illegible]
South Wales Elect.	169	[illegible]	[illegible]
South West Water	225	[illegible]	[illegible]
South West. Elect.	167	[illegible]	[illegible]
Southern Water	9	[illegible]	[illegible]
Standard Chartd.†	1,500	[illegible]	[illegible]
Storehouse	4,000	[illegible]	[illegible]
Sun Alliance†	342	[illegible]	[illegible]
TSB	369	[illegible]	[illegible]
TI Group†	1,300	[illegible]	[illegible]
TSB†	1,400	[illegible]	[illegible]
Tarmac†	1,400	[illegible]	[illegible]
Tate & Lyle	1,300	[illegible]	[illegible]
Taylor Woodrow	378	[illegible]	[illegible]
Tesco†	2,600	[illegible]	[illegible]
Thames Water†	584	[illegible]	[illegible]
Thorn EMI†	1,200	[illegible]	[illegible]
Tomkins†	2,300	[illegible]	[illegible]
Trafalgar House	3,100	[illegible]	[illegible]
Unigate	1,100	[illegible]	[illegible]
Unilever†	1,300	[illegible]	[illegible]
United Biscuits†	1,100	[illegible]	[illegible]
Utd. Newspapers	96	[illegible]	[illegible]
Vodafone†	755	[illegible]	[illegible]
Warburg (SG)†	137	[illegible]	[illegible]
Wellcome†	2,400	[illegible]	[illegible]

[illegible]

FT - SE Actuaries Share Indices — The UK Series

	May 16	Day's chge%	May 13	May 12	May 11	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3115.6	-0.1	3119.2	3137.6	3130.5	2868.1	3.90	6.42	18.68	40.79	1159.36
FT-SE Mid 250	3706.9	-0.4	3721.8	3742.4	3742.5	3146.0	3.32	5.56	21.87	40.66	1361.72
FT-SE Mid 250 ex Inv Trusts	3719.0	-0.4	3733.8	3755.5	3755.5	3175.2	3.45	5.99	20.45	41.40	1362.00
FT-SE-A 350	1577.2	-0.2	1580.0	1589.3	1586.5	1421.4	3.77	6.22	19.34	19.87	1201.10
FT-SE SmallCap	1918.29	-0.2	1923.04	1927.61	1931.06	1601.06	2.89	4.17	29.48	19.18	1472.97
FT-SE SmallCap ex Inv Trusts	1896.30	-0.2	1900.24	1905.29	1908.75	1610.95	3.04	4.62	27.01	19.55	1458.43
FT-SE-A ALL-SHARE	1568.74	-0.2	1571.63	1580.45	1578.05	1407.06	3.70	6.07	19.82	19.48	1215.59

■ FT-SE Actuaries All-Share

	May 16	Day's chge%	May 13	May 12	May 11	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2718.66	-0.7	2738.44	2730.78	2733.41	2218.60	3.42	4.52	27.75	37.88	1080.34
12 Extractive Industries(4)	3923.85	+0.5	3904.75	3900.62	3904.25	3011.50	3.30	5.04	24.89	43.39	1070.80
15 Oil, Integrated(3)	2660.22	-1.0	2688.18	2678.31	2678.96	2153.10	3.46	4.75	28.19	40.43	1079.58
18 Oil Exploration & Prod(11)	2021.92	-0.3	2027.01	2030.95	2047.27	1949.60	3.38	1.23	80.00†	15.82	1158.95
20 GEN MANUFACTURERS(282)	2046.22	-0.4	2055.44	2074.12	2071.52	1771.80	3.86	4.44	28.20	24.87	1028.24
21 Building & Construction(31)	1241.97	....	1241.52	1253.39	1259.14	1088.90	3.00	4.06	31.28	18.18	963.89
22 Building Matls & Merchs(30)	1944.41	-0.1	1946.74	1964.60	1963.18	1703.80	3.66	3.88	33.13	28.76	905.62
23 Chemicals(21)	2486.68	+0.2	2482.87	2499.29	2485.23	2141.80	3.70	4.59	27.28	28.39	1063.81
24 Diversified Industrials(16)	2072.81	-0.3	2079.36	2102.23	2094.17	1864.30	4.44	4.49	28.13	30.45	1041.92
25 Electronic & Elect Equip(34)	2055.61	-0.7	2069.30	2091.35	2071.31	1945.50	3.57	6.29	19.43	12.80	983.73
26 Engineering(71)	1914.62	-0.5	1925.16	1944.28	1949.72	1508.60	2.82	3.86	32.11	20.11	1082.09
27 Engineering, Vehicles(12)	2373.29	-0.8	2391.25	2426.90	2426.26	1726.00	4.41	2.07	67.55	32.42	1135.02
28 Printing, Paper & Pckg(27)	2850.66	-0.7	2871.68	2870.62	2866.91	2261.50	2.91	5.00	24.16	29.45	1106.51
29 Textiles & Apparel(20)	1791.54	-0.4	1798.68	1807.90	1815.71	1825.50	3.88	5.58	23.01	26.05	1004.40
30 CONSUMER GOODS(95)	2732.38	....	2733.63	2765.48	2761.98	2778.80	4.26	7.54	15.48	44.49	926.54
31 Breweries(17)	2288.40	-1.6	2322.45	2335.84	2338.31	2084.90	4.02	7.52	16.31	13.83	1004.90
32 Spirits, Wines & Ciders(10)	2971.93	-0.1	2974.58	2995.70	3051.95	2783.80	3.66	6.52	17.84	41.70	982.92
33 Food Manufacturers(23)	2309.49	-0.2	2313.65	2370.86	2367.08	2303.40	4.12	7.77	15.06	42.75	960.78
34 Household Goods(13)	2696.49	-0.2	2702.75	2739.74	2712.78	2209.30	3.26	6.71	17.89	40.74	960.73
36 Health Care(20)	1734.12	+0.6	1723.26	1729.18	1729.80	1674.30	3.18	5.47	31.70	19.00	985.25
37 Pharmaceuticals(11)	2795.32	....	2795.89	2806.84	2807.61	3207.30	4.58	7.84	14.66	47.15	874.69
38 Tobacco(1)	3770.89	+1.5	3718.37	3691.20	3657.84	3753.80	5.59	9.08	12.64	102.36	939.70
40 SERVICES(220)	2040.29	+0.2	2036.60	2048.86	2048.72	1762.00	2.86	5.69	21.15	16.40	987.76
41 Distributors(31)	2996.22	-0.3	3005.07	3035.13	3054.17	2566.90	2.92	5.35	22.21	34.05	1026.58
42 Leisure & Hotels(23)	2230.15	+0.3	2223.37	2236.53	2248.05	1726.70	3.21	4.14	28.37	19.42	1085.13
43 Media(30)	3092.07	+0.4	3079.81	3094.98	3100.38	2253.70	2.09	4.72	25.01	34.85	1088.28
44 Retailers, Food(17)	1655.19	+0.9	1640.20	1661.30	1668.05	1886.10	3.84	9.50	13.05	13.72	970.47
45 Retailers, General(44)	1757.13	-0.1	1759.10	1766.42	1761.09	1518.80	2.58	5.80	21.34	11.14	923.83
48 Support Services(40)	1653.00	-0.2	1656.66	1660.42	1654.54	1502.20	2.33	7.01	16.22	9.98	992.41
49 Transport(16)	2437.23	+0.1	2435.74	2449.07	2433.49	2002.90	3.46	4.15	27.53	15.14	940.27
51 Other Services & Business(10)	1206.46	-0.1	1207.75	1214.63	1223.20	1249.60	4.44	2.31	80.00†	5.91	1020.99
60 UTILITIES(36)	2241.18	-0.4	2249.78	2251.36	2220.77	2075.20	4.47	7.58	15.78	14.53	842.39
62 Electricity(17)	2128.32	+0.2	2124.36	2131.20	2096.68	1657.20	3.92	11.60	10.40	15.86	859.59
64 Gas Distribution(2)	1898.12	-5.6	2010.58	1991.64	1962.17	1938.50	6.31	‡	‡	53.43	867.45
66 Telecommunications(4)	1993.83	+1.0	1974.84	1975.87	1956.49	1949.60	3.96	6.07	20.12	0.09	829.25
68 Water(13)	1704.59	-0.1	1706.15	1718.79	1660.76	1679.30	5.42	14.90	7.89	3.48	820.18
69 NON-FINANCIALS(631)	1699.14	-0.2	1702.47	1711.75	1708.68	1534.54	3.69	5.96	20.26	19.25	1181.91
70 FINANCIALS(103)	2190.47	-0.1	2192.26	2208.27	2207.68	1935.90	4.10	7.48	15.78	41.34	856.68
71 Banks(10)	2773.86	-0.1	2775.37	2805.17	2801.22	2400.90	8.90	7.27	16.33	59.07	821.51
73 Insurance(18)	1304.91	+0.3	1300.41	1297.81	1310.29	1280.00	4.90	10.95	10.21	27.84	881.78
74 Life Assurance(6)	2392.91	-0.2	2397.95	2433.98	2423.58	2514.70	8.19	7.84	16.18	66.38	908.41
75 Merchant Banks(6)	2909.26	-0.3	2918.14	2953.76	2940.06	2508.30	3.26	10.48	11.11	23.28	880.59
77 Other Financial(24)	1866.73	-0.3	1872.78	1875.19	1878.98	1424.60	3.66	6.49	18.49	20.16	980.78
79 Property(39)	1617.10	-0.4	1623.50	1620.30	1616.20	1255.10	3.77	3.85	32.60	10.39	907.95
80 INVESTMENT TRUSTS(122)	2815.76	-0.4	2826.20	2830.86	2833.24	2262.80	2.18	1.82	56.82	25.54	939.74
89 FT-SE-A ALL-SHARE(856)	1568.74	-0.2	1571.63	1580.45	1578.05	1407.06	3.70	6.07	19.82	19.48	1215.59

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3112.9	3126.8	3129.0	3124.4	3124.6	3119.2	3119.5	3118.5	3113.4	3133.9	3112.5
FT-SE Mid 250	3714.4	3715.2	3716.8	3715.7	3715.2	3714.0	3711.1	3709.1	3706.1	3717.6	3705.9
FT-SE-A 350	1576.8	1582.4	1583.3	1581.4	1581.6	1579.3	1579.1	1577.7	1576.2	1585.1	1575.9

Time of FT-SE 100 High 9.22am Low 4.01pm

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrn	1171.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1177.7	1177.9	1177.9	1172.5	+5.4
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan	Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Allied-Lyons	540	51	59	-	10½	17	-	Hanson	260	13	17½	20½	11	15½	19
(*588)	589	18½	31	-	32½	39	-	(*263)	280	5	10	12½	24	27½	31

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	57	7	3
Other Fixed Interest	5	0	10
Mineral Extraction	84	64	73
General Manufacturers	125	175	365
Consumer Goods	39	56	96
Services	114	99	301
Utilities	18	18	12
Financials	69	128	181
Investment Trusts	60	94	317
Others	46	44	33
Totals	595	685	1398

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	May 3	Last Declarations	Aug 11
Last Dealings	May 20	For settlement	Aug 22

Calls: Auto Sec Prf, Aminex, BT p/pd, Blackwood Hodge Prf, Cupid, Enterprise Comp, Jacobs (JI), Mid-States, NHL Prf, Signet Prf, Tullow Oil. Puts: Aminex.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FT GOLD MINES INDEX

[illegible]

FINANCIAL TIMES EQUITY INDICES

	May 16	May 13	May 12	May 11	May 10	Yr ago	*High	*Low
Ordinary Share	2462.8	2471.2	2494.1	2491.6	2500.1	2224.9	2713.6	2439.2
Ord. div. yield	4.06	4.03	4.00	4.00	3.99	4.16	4.05	3.43
Earn. yld. % full	5.52	5.50	5.45	5.46	5.44	6.19	5.52	3.82
P/E ratio net	19.44	19.50	19.67	19.65	19.72	19.96	33.43	19.44
P/E ratio nil	20.32	20.38	20.56	20.54	20.61	18.64	30.90	20.32

*For 1994. Ordinary Share Index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share Index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2464.2	2473.2	2474.1	2471.4	2471.9	2467.9	2467.8	2464.7	2462.0	2478.1	2461.9

	May 16	May 13	May 12	May 11	May 10	Yr ago
SEAQ bargains	24,190	32,414	27,161	27,770	28,713	30,271
Equity turnover (£m)†	-	1434.1	1439.4	1399.8	1340.0	1029.2
Equity bargains†	-	39,464	29,498	30,649	29,590	34,158
Shares traded (m)†	-	604.1	612.5	706.3	549.2	577.4

† Excluding intra-market business and overseas turnover.

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or –	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.1	♦
ANZ A$		232¼	+9	278¼	214¼	[illegible]	3.9	18.3
Abbey National	♣N☐	402xd	–1	523	397	5,274	4.4	13.0
Allied Irish I£	♣N☐	230	—	314	241	1,847	6.9	9.5
Anglo Irish I£	N☐	63	—	*70	53	182.4	6.1	9.7
Asahi Y		747	+15½	789¼	628	17,258	0.7	–
Banco Bil Viz Pta		[illegible]	[illegible]	[illegible]	[illegible]	3,686	5.2	7.2
Banco Sant Pta		[illegible]	—	[illegible]	[illegible]	3,513	4.8	♦
Bk Ireland I£	♣☐	298xd	+2½	*338	245	1,216	4.8	♦
Bank Scotland	♣♣N☐	191½xd	+4¼	247	180	2,231	3.3	15.7
9¼pc Pf		119¾xd	+¾	141½	115¼	118.2	9.8	–
9¾pc Pf		124¼xd	+¼	148½	122	124.2	9.8	–
Barclays	♣N☐	537	–3	640	487	8,731	3.5	22.3
Dai Ichi Kan Y		£12½	[illegible]	[illegible]	[illegible]	[illegible]	0.4	65.1
Deutsche DM		[illegible]	[illegible]	£344¼	£297¾	14,945	1.9	–
Espirito Santo		[illegible]	[illegible]	[illegible]	918¼	208.2	4.1	4.0
First Nat Fin	N☐	76	—	*89	60	125.9	6.0	–
6.3pc Cv Pf		84	+1	*90	77	8.66	8.4	–
7pc Cv Pf		148½	–½	171	123	78.5	5.9	–
Fuji Bank Y		1497¼	–18½	1549¼	1152½	43,881	0.4	–
HSBC HK	☐	744½	+8½	1133	687	13,075	3.9	♦
HSBC (75p Shs)	☐	728xd	+3	1113	688	6,142	4.0	♦
Lloyds	N☐	572½	+5½	660	532	7,402	4.8	12.1
Mitsubishi Y		[illegible]	[illegible]	[illegible]	215¾	30,078	0.3	–
Mits Tst & Bk Y		1001½	–19¼	1045	687½	13,941	6.0	18.1
Mitsui Tst & Bk Y		737½	–38¼	801¼	514	8,837	0.7	25.1
Nat Aust A$		591	+15¼	620¼	537¼	7,760	4.1	14.1
NatWest	N☐	446	–14	522	434	7,471	5.5	18.5
Ottomana FFr		527½	—	535	227½	137.9	5.3	♦
Ryl Bk Scotland	♣♣N☐	429xd	+1	528	362½	3,419	3.9	19.4
Sakura Y		[illegible]	[illegible]	[illegible]	[illegible]	30,035	0.0	56.6

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro SS

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

SS Life Assurance and Unit Trust [illegible] Organisation,
[illegible]
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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Thornton Unit Managers Ltd (1200)F

Abbey Life Assurance Co Ltd

Canada Life Group

Eagle Star Life Assurance Co Ltd - Contd.

OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

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Scottish Amicable - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Others				
Capital Guarantee Bond	109.1	114.8	+0.20	-

Scottish Equitable plc

28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	253.5	268.8	-0.9	-
UK Equity	[illegible]	347.5	-1.1	-
International	[illegible]	[illegible]	-0.8	-
American	247.2	259.0	+0.3	-
European	262.5	276.3	-0.2	-
Japan	253.4	[illegible]	[illegible]	-
Pacific	382.1	402.2	+0.5	-
Technology	344.8	[illegible]	-0.8	-
Fixed Interest	168.5	177.4	+1.6	-
Indexed Linked	156.6	164.7	-0.3	-
Foreign Bond/Currency	228.7	[illegible]	-1.3	-
Cash	[illegible]	[illegible]	[illegible]	-
Ethical	130.4	137.2	-0.6	-
Pens Mixed	738.3	777.1	-3.0	-
Pens UK Equity	[illegible]	851.1	-5.0	-
Pens International	[illegible]	873.2	-1.9	-
Pens Nth American	244.8	257.7	+0.1	-
Pens European	308.7	324.9	-2.4	-
Pens Japan	307.7	[illegible]	-0.3	-
Pens Pacific	487.6	513.3	+0.9	-
Pens UK Fixed Interest	[illegible]	377.5	+3.0	-
Pens Index Linked	195.1	205.3	-0.4	-
Pens Cash	[illegible]	[illegible]	[illegible]	-
Pens Property	[illegible]	[illegible]	-	-
Pens Ethical	169.1	178.0	-0.6	-
Edinburgh Inv	[illegible]	[illegible]	-	0
[illegible]	[illegible]	[illegible]	-0.7	-
Pens Global	108.5	114.3	-0.2	-
Pens Emerg Mkts	126.4	133.0	-0.5	-
Pens Overseas Bond	93.0	97.9	-0.4	-
Pens UK Smaller Cos	[illegible]	104.2	-0.3	-
Pens Latin America	77.4	81.5	-0.4	-

Scottish Life Investments

19 St Andrew Square, Edinburgh 031-225 2211

	Bid Price	Offer Price	+ or -	Yield Gross
Property	217.3	228.9	+0.1	-
UK Equity	349.9	367.5	+0.5	-
American	243.1	256.0	+2.0	-
Pacific	377.7	397.7	+1.8	-
European	[illegible]	[illegible]	+0.3	-
International	315.8	332.6	+1.3	-
Fixed Interest	229.7	241.8	+1.6	-
Index Linked	190.2	200.3	+0.6	-
Deposit	190.8	200.9	+0.1	-
Managed	284.7	[illegible]	+0.8	-
Worldwide	128.5	[illegible]	[illegible]	-

Sun Alliance Group - Contd.

Scottish Mutual Assurance plc

Scottish Provident Group

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Tunbridge Wells Equitable

Woolwich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

Allied Dunbar International Assurance Ltd

Equitable Life (International)

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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Perpetual UT Mngrs (Jersey) Ltd

The Portugal Fund Limited

Royal Bank of Canada Intl Fd Mgt Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Schroder Mngt Services (Jersey) Ltd

TSB Trust Funds (CI)

Warburg Asset Management Jersey Ltd

Fidelity Funds (n)

Fleming Group (n)

LUXEMBOURG (SIB RECOGNISED)

Templeton Global Strategic SICAV (u)

LUXEMBOURG (REGULATED)(**)

Fleming Group

Templeton Worldwide Investments

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Delta Lloyd Bank Fund Management

Jardine Fleming Unit Trusts Ltd

Putnam Emerging Funds Ltd

MANAGED FUNDS NOTES

MARKETS REPORT

Market waits on Fed

The dollar traded steadily yesterday ahead of the important meeting today of the Federal Open Markets Committee which is expected to announce a further tightening of US monetary policy, *writes Philip Gawith.*

An aggressive tightening, of 50 basis points in the discount and federal funds rates, plus a statement that neutrality has been reached, is expected to support the dollar. Anything less, and there is a danger that the US currency will weaken again.

The dollar finished in London at DM1.674 against the D-Mark from DM1.6671, and Y104.580 against the yen from Y104.755.

Trading was generally very quiet with most of the market preferring to direct its focus towards today's events.

Elsewhere, the Greek drachma was the focus of attention as the Bank of Greece lifted interest rates to protect the currency from speculative pressures.

The Bank of England's exchange rate index finished at 80.5 from 80.1 last Friday.

■ US economic data released were in line with expectations and had little impact on the currency. April industrial production rose by 0.3 per cent, as expected, while capacity utilisation was 83.6 per cent, unchanged from March.

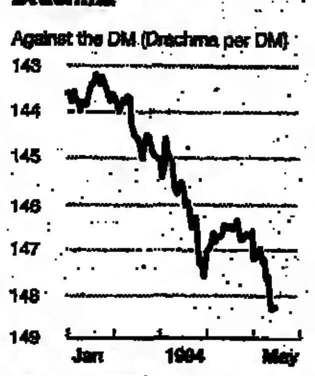
Analysts are fairly evenly divided about whether the Fed will raise the federal funds rate, currently 3.7 per cent, by 25 or 50 basis points. The three tightenings so far this year, commencing on February 4, were all by 25 basis points.

Many analysts contend that recent weakness in both currency and bond markets, which have fed off each other, results from this gradual tightening process. This, it is argued, unsettles markets because the continual spectre of a further monetary tightening acts as a disincentive for new investors to enter the market.

But the argument for a short, sharp shock, convincing the market that policy neutrality had been achieved, lost some of its force with the release of good inflation data.

Drachma

Against the DM (Drachma per DM)



Source: FT Graphite

■ **Pound in New York**

May 16	— Latest —	— Prev. close —
£ spot	1.5025	1.4990
1 mth	1.5034	1.4985
3 mth	1.5043	1.4980
1 yr	1.5040	1.4960

Mr Mark Austin, treasury strategist at Midland Global Markets notes that with this backdrop, "there would probably be little surprise if the Fed continued its gradnalist approach and raised the funds target by only 25 basis points to 4 per cent."

In a note to customers yesterday, JP Morgan, the US investment bank, pointed out that there were also political and tactical reasons to follow this course. "An aggressive rata hike on the heels of a report suggesting stable to slightly declining consumer price inflation will surely draw attacks from Fed critics in Congress," the report notes.

Whatever the Fed chooses to do, it is not yet clear that the worst is over for the dollar. Although the spectre of intervention remains, Mr Austin notes: "The reduction in speculative capital committed to markets following the collapse in bonds earlier this year has reduced one area of support for the dollar, and the longer term capital and current account flows are still negative."

■ The support for sterling is related to the death last week of Mr John Smith, tha UK Labour Party leader. By drawing attention away from the troubles of the Conservative party and the prime minister, his death is seen as having contributed to greater political stability in the short term.

This change in the political landscape has been supplemented by the view that, compared to Germany, interest rate differentials appear increasingly to be moving in the UK's favour.

Sterling finished in London at DM2.5174, more than 1½ pfennigs above Friday's close of DM2.5012. It was also higher against the US dollar, closing at $1.5039 from $1.5004.

■ In Europe, attention focused on Greece where banks lifted interest rates sharply to protect the drachma. The National Bank of Greece - the largest state bank, - raised short term deposit rates to 35-45 per cent, from 23 per cent last Friday. Other short-term rates were also raised.

The currency cama under speculative attack last week when the announcement that the country was lifting remaining capital controls on July 1 prompted a sell-off of the currency, in anticipation of a likely devaluation as capital left the country.

The central bank's measures appeared to have achieved some success with traders reporting quite conditions and little pressure on the currency.

Yesterday afternoon the drachma was being quoted at 148.10/20 after being fixed et Dr148, compared to the previous fix of Dr147.70.

Elsewhere the D-Mark's performance was mixed. It was unchanged at FFr3.429 against the French franc, but stronger, et L961.5 from L957.2, against the Italian lira.

■ The Bank of England provided the UK money markets with £615m assistance after forecasting a £600m shortage. The overnight rate moved in the 3 to 5 per cent range.

In Germany call money eased to 5.40/50 per cent, from 5.45/55 per cent on Friday, ahead of this week's repo. The futures markets were "listless" in the words of one participant.

■ **OTHER CURRENCIES**

May 16	£	$
Hungary	158.018 - 158.241	103.770 - 103.870
Iran	2615.00 - 2621.00	1748.00 - 1750.00
Kuwait	0.4479 - 0.4486	0.2979 - 0.2988
Poland	33858.8 - 33946.8	22520.0 - 22570.0
Russia	2818.61 - 2830.34	1875.00 - 1882.00
U.A.E.	5.5216 - 5.5246	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

		Closing mid-point	Change on day	Bid/offer spread	Day's High	Day's Low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	JP Morgan Index
Philippines	(Peso)	27.1250	-	000 - 500	27.2500	27.0000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7500	-0.0002	495 - 505	3.7505	3.7485	3.7507	-0.2	3.753	-0.3	3.7645	-0.4	-
Singapore	(S$)	1.5507	-0.0031	502 - 512	1.5540	1.5490	1.5501	0.5	1.5498	0.3	1.5482	0.2	-
S Africa (Com.)	(R)	3.6633	+0.018	625 - 640	3.6753	3.6520	3.6798	-5.4	3.7058	-4.6	3.7988	-3.7	-
S Africa (Fin.)	(R)	4.8800	-0.01	700 - 900	4.9700	4.8700	4.914	-8.4	4.974	-7.7	-	-	-
South Korea	(Won)	806.150	+0.1	100 - 200	806.400	806.000	809.15	-4.5	812.65	-3.2	831.15	-3.1	-
Taiwan	(T$)	26.8050	-0.005	000 - 100	26.8200	26.7700	26.8705	-2.9	26.971	-2.5	-	-	-
Thailand	(Bt)	25.2250	-0.02	200 - 300	25.2500	25.2100	25.305	-3.8	25.43	-3.3	25.86	-2.9	-

†SDR rate for May 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 13. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	10	18.01	16.66	4.857	1.982	4670	5.453	21.06	501.0	402.4	22.80	4.139	1.930	3.983	2.902	303.8	2.518
Denmark	(DKr)	52.60	10	8.763	2.555	1.043	2457	2.869	11.08	263.5	211.7	11.89	2.177	1.015	2.160	1.527	159.7	1.325
France	(FFr)	60.03	11.41	10	2.916	1.190	2804	3.274	12.64	300.7	241.5	13.57	2.485	1.158	2.387	1.742	182.2	1.512
Germany	(DM)	20.59	3.914	3.429	1	0.408	961.5	1.123	4.335	103.1	82.84	4.652	0.852	0.397	0.822	0.596	62.50	0.518
Ireland	(I£)	50.46	9.592	8.405	2.451	1	2356	2.752	10.62	252.8	203.0	11.40	2.089	0.974	2.015	1.464	153.2	1.271
Italy	(L)	2.141	0.407	0.357	0.104	0.042	100.	0.117	0.451	10.73	8.616	0.484	0.089	0.041	0.085	0.062	6.500	0.054
Netherlands	(Fl)	18.34	3.486	3.054	0.891	0.363	856.3	1	3.861	91.86	73.78	4.144	0.759	0.354	0.732	0.532	55.66	0.462
Norway	(NKr)	47.50	9.029	7.912	2.307	0.941	2218	2.590	10	237.9	191.1	10.73	1.966	0.917	1.898	1.379	144.2	1.196
Portugal	(Es)	19.96	3.795	3.325	0.970	0.396	932.2	1.089	4.203	100.	80.32	4.511	0.826	0.385	0.797	0.579	60.69	0.503
Spain	(Pta)	24.85	4.725	4.140	1.207	0.493	1161	1.355	5.233	124.5	100.	5.616	1.029	0.480	0.992	0.721	75.44	0.626
Sweden	(SKr)	44.25	8.412	7.371	2.149	0.877	2067	2.413	9.317	221.7	178.1	10	1.832	0.854	1.767	1.284	134.3	1.114
Switzerland	(SFr)	24.18	4.593	4.024	1.173	0.479	1128	1.317	5.086	121.0	97.20	5.459	1	0.466	0.965	0.701	73.33	0.608
UK	(£)	51.82	9.851	8.632	2.517	1.027	2420	2.826	10.91	259.6	208.5	11.71	2.146	1	2.069	1.504	157.3	1.305
Canada	(C$)	25.05	4.761	4.172	1.217	0.496	1170	1.366	5.273	125.5	100.8	5.660	1.037	0.496	1	0.727	76.03	0.631
US	($)	34.45	6.550	5.739	1.674	0.683	1609	1.879	7.254	172.6	138.6	7.786	1.426	0.665	1.376	1	104.6	0.868
Japan	(Y)	329.4	62.63	54.88	16.00	6.529	15385	17.97	69.36	1650	1325	74.44	13.64	6.357	13.15	9.561	1000.	8.298
Ecu		39.71	7.548	6.615	1.929	0.787	1854	2.166	8.360	198.9	159.8	8.973	1.644	0.766	1.585	1.152	120.5	1

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner, Swedish Kronor and Belgian Franc per 10: Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5977	0.5973	-0.0011	0.5977	0.5958	23,774	114,785
Sep	0.5971	0.5975	-0.0017	0.5975	0.5968	204	6,173
Dec	-	0.5991	-	-	0.5991	7	218

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9532	0.9593	+0.0054	0.9605	0.9525	20,969	57,248
Sep	0.9600	0.9666	+0.0055	0.9675	0.9600	841	5,261
Dec	0.9746	0.9746	+0.0054	0.9750	0.9746	136	982

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7005	0.7015	-	0.7019	0.6962	7,997	36,498
Sep	0.7033	0.7040	+0.0007	0.7042	0.7030	232	947
Dec	-	0.7069	-	-	-	24	337

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.4976	1.5016	+0.0042	1.5020	1.4960	5,885	42,439
Sep	1.5002	1.5020	+0.0042	1.5020	1.5002	199	2,470
Dec	1.4960	1.5000	+0.0012	1.5000	1.4960	1	39

EMS EUROPEAN CURRENCY UNIT RATES

May 16	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.787218	-0.00344	-2.65	6.27	18
Netherlands	2.19672	2.16876	+0.00018	-1.27	4.79	-
Belgium	40.2123	39.7652	+0.002	-1.11	4.62	6
Germany	1.94964	1.93188	-0.00001	-0.91	4.40	-
France	6.53883	6.62484	-0.00111	1.32	2.11	-11
Denmark	7.43679	7.55764	+0.00064	1.63	1.80	-11
Portugal	192.854	199.167	+0.169	3.27	0.18	-22
Spain	154.250	159.580	+0.377	3.46	0.00	-24
NON ERM MEMBERS						
Greece	264.513	285.935	+0.578	6.10	-4.30	-
Italy	1793.19	1856.29	+8.13	3.52	-0.06	-
UK	0.786749	0.768766	-0.002775	-2.29	5.88	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.425	7.44	7.50	7.70	-	0.09	0.38
1.450	5.00	5.28	5.71	0.01	0.35	0.81

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

UK INTEREST RATES

LONDON MONEY RATES

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.69	94.68	-0.01	94.72	94.66	5473	74218
Sep	94.49	94.43	-0.04	94.49	94.43	12410	89880
Dec	94.04	94.03	+0.01	94.05	94.00	12620	128429
Mar	93.56	93.53	+0.01	93.58	93.52	8266	52548

Traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9450	0.20	0.16	0.14	0.02	0.25	0.61
9475	0.05	0.09	0.09	0.12	0.41	0.80
9500	0.01	0.04	0.03	0.33	0.61	1.00

Est. vol. total, Calls 3508 Puts 4300. Previous day's open int., Calls 174629 Puts 154363

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	6
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	Standard Chartered	5.25
Bank of Baroda	5.25	Girobank	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	●United Bk of Kuwait	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Western Trust	5.25
Bank of India	5.25	Heritable & Gen Inv Bk	5.25	Whiteaway Laidlaw	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25	Yorkshire Bank	5.25
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	*Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of British Merchant Banking & Securities Houses Association

* In administration

Money Market Trust Funds

Money Market Bank Accounts

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 16 / Sch)

BELGIUM/LUXEMBOURG (May 16 / Frs.)

DENMARK (May 16 / Kr)

FINLAND (May 16 / Mkk)

FRANCE (May 16 / Frs.)

GERMANY (May 16 / Dm.)

ITALY (May 16 / Lire)

NETHERLANDS (May 16 / Fls.)

NORWAY (May 16 / Kroner)

SPAIN (May 16 / Pts.)

SWEDEN (May 16 / Kronor)

SWITZERLAND (May 16 / Frs.)

PACIFIC

JAPAN (May 16 / Yen)

AUSTRALIA (May 16 / Aus$)

HONG KONG (May 16 / H.K.$)

MALAYSIA (May 16 / MYR)

SINGAPORE (May 16 / S$)

NORTH AMERICA

CANADA

TORONTO (May 16 / Can $) 4 pm close

MONTREAL (May 16 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (May 16 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal yields. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Monday, May 16, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Hitachi	8.5m	995		Ihara Chem	3.5m	1070	
Brother	5.9m	719	+25	Nippon Steel	3.4m	351	+3
Toshiba	5.7m	795	+4	Ishi-Har Hvy Ind	3.3m	463	+4
NKK	5.0m	270	+2	Nippon Paper	3.0m	673	+11
Kureha Chem	3.8m	593	+18	M'bishi Hvy	3.0m	692	-5

INDICES

US INDICES

■ RATIOS

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	2206.0	2186.0	-5.0	2207.0	2183.0	14,489	24,963
Jun	2191.0	2169.0	-5.0	2191.0	2166.0	1,410	31,798
Jul	2188.5	2166.5	-5.0	2188.5	2188.5	1	360

Open interest figures for previous day.

4 pm close May 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	14½	AAR	0.48	3.2	405	177	14⅞	14¾	14⅞	
16⅞	13⅞	A L Labs A	0.18	1.3	88	64	14⅛	13⅞	13⅞	-⅛
65¾	57⅝	AMP x	1.68	2.6	22	871	65	64⅝	64⅞	
72¾	52⅛	AMR			27	4884	53¾	53⅛	53¼	+⅛
5	3⅝	ARX			14	52	4⅛	4	4⅛	+⅛
58⅞	38⅝	ASA x	2.00	4.6	28	837	44	43⅛	43½	+1⅝
30⅝	25⅞	AbbtL	0.76	2.6	17	13198	29⅝	28⅝	29⅝	+¾
13¾	11⅞	Abitibi Pr	0.50	4.1	8	530	12¾	12	12¾	+⅛
13¾	11⅞	Acpincele			22	28	12⅞	12¾	12⅞	+⅛
31	24½	ACE Ltd	0.44	1.6	4	300	27⅝	27½	27¾	+⅛
12½	10⅛	ACM Gvt In	1.00	10.3		506	10⅞	10¾	10¾	-⅛
10⅛	7⅞	ACM GvOpp	0.50	6.5		20	8½	8⅞	8⅞	
10⅝	8⅞	ACM Gvt Sp	0.96	11.3		427	8½	d8⅞	8½	
12	9⅞	ACM Gvt Sc	1.09	11.6		642	9½	d9¼	9¼	-¼
11¾	8¾	ACM Man	1.00	12.0		132	9⅛	9	9	
9¼	6	ACM Managd	0.72	0.7		44	8⅞	8¾	8¾	
15½	8¾	AcmeClv x	0.44	4.1	13	21	11½	10⅝	10⅝	-⅛
8½	7	Acme Elect			8	40	7⅞	7⅛	7⅞	+⅛
38½	23	Acordia	0.60	2.1	14	28	28¼	28⅛	28¼	-⅛
9⅞	5¾	Actava	0.36	4.3	2	675	8⅝	8⅞	8⅞	-¼
15⅛	11¼	Acuson			160	728	14⅝	13⅞	14¾	-⅛
16⅞	18½	Adams Expr x	0.48	2.8	8	121	17	16¾	16⅞	-⅛
64	48½	Ad Micro	3.00	0.6		322	52	51¼	51⅞	-⅞
27¾	16¾	AdvMic	3.00	12.7	10	2817	24	23½	23⅝	-⅛
6⅞	5	Advest Grp	0.16	3.1	8	80	5¼	5⅛	5⅛	+⅛
20	16½	Advo Inc	0.16	0.8	110	55	18⅝	[illegible]	18⅝	+⅛
57¼	49⅞	Aegon ADR x	2.95	5.6	11	41	52¼	52	52¼	+⅛
65¾	49¾	AetnaL	2.76	5.1	6	1704	54⅛	53½	53¾	+¼
32⅛	25¾	Aflac x	0.46	1.4	14	2130	[illegible]	[illegible]	[illegible]	[illegible]
20¼	16⅞	Ahmanson x	0.80	4.6	12	1044	18½	18¼	18¼	+⅛
4	1⅞	Aileen Inc			1	19	2⅝	2½	2½	
49⅞	38⅞	AirPrC	0.92	2.2	22	4623	40¼	38⅝	38⅞	+⅛
39⅞	31½	Airbne Frt x	0.30	0.8	21	605	35⅞	35	35	-¼
26	19¾	Airgas Inc			41	1883	24	23⅛	23½	+¼
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

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- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close May 16

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
27	19¼	Safeway			22	462	22⅞	22⅛	22⅞	+⅛
6⅞	4⅝	SafewayW95				0	5¼	0¼	5¼	
57⅞	50¼	StJoePaper	0.20	0.4	286	41	54½	54	54⅞	+⅛
30¼	26⅞	StJoeL&P	1.80	6.8	18	26	26¾	d26½	26½	-⅛
99	75⅞	StPaul	3.00	3.0	7	1294	76¾	76	76⅞	+⅝
9⅞	6¾	Salant Crp			6	47	7⅛	6⅞	6⅞	-⅛
49⅞	36¼	Sallie Mae	1.40	3.6	7	6074	39⅞	38⅞	38½	-⅝
13⅞	11⅞	Salomon Br x	0.28	2.3		165	12¼	12⅛	12¼	
52¼	44¾	Salomon	0.64	1.3	0	1584	49¼	48⅝	49¼	+½
28	18⅝	SnDgGE	1.52	7.8	10	1467	19⅜	10	19⅝	
10	7½	SantaFeERs	0.18	1.6	0	5100	0	8⅞	0	
40	34½	SantaFePac	2.80	7.8	18	80	35⅞	34¾	35½	+⅜
28¼	20½	SanFeP	0.18	0.5	11	4476	20⅞	d19¾	20	-⅞
26	20⅛	SaraLee	0.64	2.9	14	5094	22½	28	22	-⅜
50⅛	42¾	Scana Corp	2.82	6.6	11	276	43⅛	42½	42⅞	
20½	13⅞	Scecrp	1.42	10.2	8	5442	14⅛	13⅞	13⅞	-⅛
40½	34¾	SchererRP			28	18	34⅞	d34½	34¾	-⅛
68¾	54½	SchrPl x	2.04	3.2	15	6128	65⅛	64¼	64¾	+½
61½	50¾	Schlmb	1.20	2.1	28	2813	58⅞	58⅞	58¾	+¾
33	25⅛	Schwab(C)	0.28	0.9	14	2821	29½	28⅞	29½	+⅞
10⅛	6⅛	Schweitzer			25	20	6⅞	6¾	6⅞	+⅛
36⅞	24⅞	SciAtl	0.12	0.4	66	1911	33⅞	33	33⅞	-⅛
16⅞	13⅛	Scotsman	0.10	0.7	12	2	13¾	13⅛	13¾	+⅛
48¾	37¼	ScottP	0.60	1.6	11	6467	48⅞	40	45	
28⅞	16⅞	ScudderNAsF	0.21	1.0		300	22	21⅞	21⅞	-¼
12⅞	9¾	ScudderNEuF	0.10	1.6		205	11⅛	10⅞	11	-⅛
18¼	13½	SeaCnB	0.70	4.8	7	80	15	14½	14½	-½
16½	15⅛	SeaC1.4625	1.48	9.2		6	16	15⅞	15⅞	-⅛
31	26¼	Seagram	0.56	2.0	36	2812	28½	28¼	28½	+⅜
28¾	23	Seagull En			24	967	27⅞	26⅞	26⅞	-1¼
31½	26⅞	Sealed Air			21	100	28	27¼	28	+¾
55⅛	42⅛	SearsR	1.60	3.4	7	4316	47⅞	46⅝	47⅞	
19¾	11¼	Seligm Sel	0.84	7.1		96	11⅞	11¾	11⅞	+⅛

NASDAQ NATIONAL MARKET

4 pm close May 16

AMEX COMPOSITE PRICES

4 pm close May 16

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
BAT Ind	0.20	12	314	7¼	7⅛	7⅛	
Baird		7	0	2⅛	2⅛	2⅛	
Binks Man x	0.40	155	z100	21¾	31⅛	21⅛	-⅛
Bio-Rad A		46	232	17	10⅞	16⅞	-¼
Blount A	0.50	40	194	u37½	36⅞	37	+1⅞
Bow Valley		100	z100	10	18	10	
Bowmar		39	161	3⅛	3	3⅛	+⅛
Bowne	0.30	10	174	20¾	20⅛	20⅞	+⅛
Brascan A	1.04	18	125	13¼	12⅞	13⅛	+⅜
Calprop		1	56	⅞	13/16	13/16	
Cambrex x	0.20	13	3	22¼	22¼	22¼	+¼
Can Marc	0.28	21	2	11⅛	11¾	11¾	
Cheniere A	0.01	8	1621	3⅛	9	3⅛	+⅛
Chambers		0	0	3⅛	3⅛	3⅛	
Champion		43	837	29⅞	29½	29¾	+¼
Cohen		212	495	4½	4¼	4¼	-¼
CircPh	0.04	23	565	10	9⅞	9⅞	
Conf FdA	0.01		195	5⅜	5¼	5⅞	
Elan		13	881	31⅛	31¼	31⅛	+⅛
Engy Serv		47	2084	4	3⅞	3⅞	-⅛
Epitope		9	848	10	15½	15⅞	-¼
Fab Inds	0.84	12	z100	34⅛	34⅛	34⅛	-⅛
Fina A	3.20	15	7	u72¼	71⅞	72¼	+⅛
FstCityBnc	0.20	13	z100	10⅞	10⅞	10⅞	
Fluke (J)	0.52	71	9	29	29⅞	28⅞	+⅛
Forest Ls		25	808	42⅞	41⅞	41⅞	-⅞
Frequency		2	0	3¼	d3⅝	3¼	
Garan	0.80	7	23	25	24¾	25	+¼
Giant FdA x	0.72	10	238	21⅛	20⅞	21	-⅛
Glatfltr	0.70	33	137	10	15½	15⅝	
Goldfield		2	140	½	d½	½	
Greenman		31	20	8⅛	8	8	-⅛
Gulf Cda	0.34	22	657	3⅞	3⅛	3⅞	+⅛
HanDir		34	2982	0	d5¾	5⅞	+⅛
Hasbro x	0.28	14	3128	33⅞	d32½	32½	-¾
Lumex Inc		158	129	9½	9¼	9½	+⅛
Lynch Cp		7	0	24	23¾	23¾	-¼
Maxxam		2	28	33⅝	d32⅝	33½	+⅜
Media A	0.44	23	80	23¼	23	23¼	+⅛
Merc Co	0.20	4	z100	4¼	4¼	4¼	
MilwLd			5	6⅞	6¼	6⅞	-⅛
Moog A		19	3	8	0	8	-⅛
MSR Expl		16	103	u⅞	13/16	13/16	
Nat Pat		7	280	6¼	3⅞	3⅞	
NY TmA	0.56	362	445	25⅞	25⅛	25⅞	+⅛
NthCanOil	0.20	11	3	9½	9⅞	9⅞	+⅛
NumacE		127	4	6½	6⅞	6⅞	
NVR		12	18	8¾	8¾	8¼	
Odetics A		34	135	u9¾	d9¼	9⅞	
Oilean x	0.24	141	797	29⅞	29⅞	29⅞	-⅛
Pegasus G	0.40	93	1728	16⅞	16¼	16⅞	+⅞
TotPNA	0.20	21	858	16	14⅞	15½	-⅞
TownCntry		0	48	2⅞	2½	2½	-⅛
Triton		9	10	1⅛	1⅛	1⅛	-⅛
Tubos Mex		16	1145	4½	d4⅛	4½	+⅛
TurnrBrA	0.07	65	140	18	d17⅞	17⅞	-⅛
TurnrBrB	0.07	1762	863	18	d17⅞	17⅞	-⅞
UtdFoodsA		5	54	u2⅞	2¼	2¼	
UtdFoodsB	0.20	118	23	u2⅞	2¼	2⅞	+¼
UnivPatr		18	55	6½	6¼	6½	
US Cellul		92	290	26¾	26½	26⅝	+⅝
ViacomA		21	210	29⅞	28¼	28¼	-1½
ViacomB			2704	27⅞	27	27	-⅞
Weatherfd		24	1d1	10⅞	10⅛	10¼	-⅜
Wolfhamer	0.80	24	312	28¾	28⅞	28½	
WRET	1.12	16	215	13⅛	12	13	
Worthen	0.80	10	252	23	22	22⅞	+⅛
Xytronix		4	61	4⅞	4⅛	4⅛	-⅛

AMERICA

Dow edges up but investors stay cautious

Wall Street

Although US share prices edged higher yesterday morning in the wake of firmer bonds, trading was subdued as the market awaited a likely interest rate increase from the Federal Reserve, *writes Patrick Harverson in New York.*

By 1 pm, the Dow Jones Industrial Average was up 7.83 at 3,667.51. The more broadly-based Standard & Poor's 500 was also slightly firmer at the halfway mark, up 1.19 at 445.33, while the American Stock Exchange composite index was up 0.29 at 432.86 and the Nasdaq composite down 1.57 at 715.35. Trading volume was 131m shares, and declines marginally outpaced rises by 995 to 935.

From the opening bell, the mood of the market was cautious, with traders and investors reluctant to commit themselves ahead of today's meeting of the Fed's policy-making open market committee. Wall Street analysts expect the FOMC to sanction a rate increase, possibly one as large as a 50 basis points rise in the federal funds rate and a similar increase in the discount rate.

If the Fed puts up rates, it will be the fourth monetary policy tightening in as many months, and like the previous three, it will be designed to slow the pace of economic growth and stave off any return of inflation.

Trading was subdued yesterday, not just because of the expectation of a rate rise, but also because participants were unsure bow the market will react if the Fed does act. Normally, rate increases are bad for stocks, but because the move is already priced into the bond and equity markets, investors may be disappointed if the Fed decides not to act this week. Conversely, a rate increase could be greeted by a jump in share prices, primarily because it would please the bond market.

Yesterday, wbat little strength there was in share prices came courtesy of a firmer bond market, where the yield on the benchmark 30-year bond edged lower to 7.443 per cent. Analysts said bonds rose because the April industrial production figures – which showed a rise of 0.3 per cent – contained no nasty surprises.

Among individual stocks, EDS Systems climbed $1⅞ to $34⅝ in busy trading on the news that General Motors, the company's parent, plans to spin off GME in a tax-free reorganisation. The news left GM shares up $⅝ at $53⅞.

Another stock higher on news of a divestiture was Mead Corp, which rose $1⅞ to $44⅝ after the company said it would sell its Mead Data Central unit so that it could focus in future on its core forest products business.

Philip Morris, which benefited last week from speculation about a possible split of its food and tobacco businesses, ran into profit-taking yesterday, falling $1⅛ to $50⅝.

UAL fell $1 to $118¼ on reports that the pilots union wants to renegotiate the proposed terms of the carriers' buyout.

On the Nasdaq market, Weitek plunged $2¼ to $4¼ after the company warned that it would report a loss in the second quarter.

Canada

Toronto stocks continued to rise at midday with gains in most sectors and strong base metal, conglomerate and forestry product shares overpowering losses in communications and real estate.

The TSE 300 composite index climbed 26.33 to 4,201.68 in volume of 35.5m shares valued at C$254.9m. Advancing issues outpaced declines 289 to 259.

Rising sectors were led by the metals and minerals group, up 73.02 or 2.07 per cent, to 3,601.12. Among base metal stocks, Inco rose C$⅞ to C$34⅛, while Alcan Aluminum gained C$⅞ to C$30⅝.

The conglomerates sector rose 73.21 or 1.52 per cent, to 4,888.18. TransCanada Pipelines edged up C$¼ to C$17⅝ after the company earlier awarded a C$22m pipeline contract.

SOUTH AFRICA

Gold shares finished generally lower as they succumbed late in the day to a bullion price dip, and other shares tended to soften as an expected pick-up in foreign demand failed to materialise. The overall index ended 36 down at 5,497, industrials slipped 3 to 6,707 and golds were 39 lower at 1,856.

De Beers dipped R1.50 to R109.25, Anglos shed R2.25 to R232.75 and JCI lost R2.50 at R92.50. Financial shares reflected slower interest after recent gains, Firstbank receding R1 to R113.

Brazil falls back 1.4% in early afternoon trading

Brazil

Equities in São Paulo were down 1.4 per cent in listless early afternoon trade as investors were mostly sidelined, with most of the deals concentrated on day-trade and options operations, *Reuter reports.*

The Bovespa index of the 56 most active shares was off 233 at 15,626 at 1 pm. Volume came to Cr414.9bn ($266m).

Turnover was up modestly, but brokers said that most deals were concentrated on box operations, a combination of two call and two put options series which grants investors a fixed-income return. Telebras preferred retreated 1.6 per cent to Cr45.35. Petrobras preferred was flat at Cr110.

Mexico

Stocks opened marginally higher, lifting the IPC index of 37 leading shares 5.58, or 0.25 per cent, to 2,245.75.

After an hour of trade, turnover had reached 7.6m shares in 51 transactions. Advancing issues topped declining shares by 6 to 3.

Grupo Financiero Serfin LCP series led risers, appreciating 1.06 per cent, followed by Grupo Carso A1 shares, which gained 0.80 per cent. Telmex L series rose 0.64 per cent.

Declines were led by Coca-Cola Femsa L shares, which fell 4.76 per cent, while Femsa B stock slipped 0.29 per cent.

EUROPE

Bourses tread warily ahead of FOMC meeting

Europe saw some nervousness ahead of today's US meeting of the FOMC, which is expected to signal a further increase in US interest rates.

Meanwhile, Lehman Brothers yesterday switched to an underweight position in Italy – previously overweight – in favour of the Netherlands.

In explanation, Lehman's strategist Mr Joe Rooney, said the Italian market had discounted most of the economic and political changes. "Italian equities have only traded at higher levels of valuation once in the past 36 years, and that was in 1986," he wrote. "The market is also vulnerable to a deterioration in the liquidity situation that has been so supportive over the past half year."

He said that the Netherlands, showed good value among European bourses, supported by forecasts of good earnings and dividend growth.

FRANKFURT's rise to record levels – the DAX index closing at a new record high during the official session – was masked by low turnover.

The index finished up 12.36 at 2,271.11. Turnover was a slim DM7.3bn.

One of the exceptions to the day's positive tone was Lufthansa, which weakened DM5.50 to DM201.50, as the airline disappointed investors with news that shares issued in its rights issue would be priced at a 20 per cent discount to current prices. The group also forecast a return to profits in 1994.

PARIS could find little to get excited about and the CAC-40 index moved ahead just 0.70 to 2,187.70 in thin turnover of FFr2bn.

Baring Securities, noting that the CAC-40 has lost some 10 per cent since the start of the year, suggested that in the short-term further weakness could be expected.

"However, we take a more optimistic view for the medium term, on the basis of a stronger than expected economic recovery...As a result, a fall to the 2,050-2,100 range will be a buy opportunity".

MILAN was under pressure from a combination of profit-taking after last week's firm performance, technical end of month trading and political worries ahead of tomorrow's vote of confidence in the Senate in which Mr Silvio Berlusconi's administration does not have an overall majority. The Comit index fell 19.12 or 2.4 per cent to 789.73.

Blue chips, the best performers recently, lost some of their shine. Ferruzzi, launching a L1,340bn capital increase today fell L124 to L2,135, and Cir, raising L1,060bn, was L100 lower at L2,888.

Montedison dropped L39 or 2.6 per cent to L1,487: early in the day, the European Commission expressed serious doubts abont whether the plastics joint venture with Royal Dutch/Shell should go ahead.

Fiat, the market bellwether, lost L188 to L7,039, with strong support seen at the L7,000 level.

Italcementi lost L556 to L15,854 following the weekend announcement of a net loss of L126bn in 1993.

Alitalia was L40, or 3.5 per cent, lower at L1,100 after the Transport Ministry's announcement that the airline must find some L1,500bn that it needs through a bond issue or an injection of private funds.

ZURICH decided that recent losses had been overdone and the SMI index picked up 30.3 or 1.1 per cent to 2,709.0.

The recently weak Roche certificates rebounded SFr185 to SFr6,650, while Nestlé was marked SFr10 ahead at SFr1,115. UBS featured among a strong financial sector rising SFr21 to SFr1,135.

Sandoz's bearer share gained SFr10 to SFr730 following the 5-for-1 stock split, as the company announced that it had reached agreement with the Scripps Research Institute of the US to exchange funding for research in return for the right to develop and market some of the institute's generally funded medical discoveries.

BRUSSELS traded higher in moderate trade, benefiting from stronger bonds and hopes of further interest rate cuts. The Bel-20 index rose 4.35 to 1,537.80.

Bekaert, the steel cord and wire maker, picked up BFr825 or 3 per cent to BFr28,475 on news that it had won a large contract to armour an offshore gas pipeline in Thailand.

Union Miniere rose BFr65 or 2.5 per cent to BFr2,665 following the surge in zinc prices at the end of last week.

STOCKHOLM continued higher amid further strong foreign demand for Ericsson and declining domestic interest rates.

The Affärsvärlden index rose 9.6 to 1,544.8 in healthy turnover of SKr2.95bn.

Ericsson continued the rally which began in the middle of last week, sparked by analysts' upgrades of company profit forecasts and recommendations following the group's first-quarter earnings report. The B shares closed SKr13 higher at SKr378.

MADRID was lifted by some good first quarter results and the General index rose 5.17 to 334.20 in the most active trading seen in recent weeks, with volume of Pta42.5bn.

Sevillana put on Pta17 to Pta704 after its announcement of a 17 per cent rise in first quarter profit while Telefonica added Pta25 to Pta1,845 in response to its first quarter figures.

Union Y Fenix fell Pta215 or 11.3 per cent to Pta1,690 as it resumed trading after Friday's suspension pending publication of the latest valuation of the insurer which is merging with AGF Seguros.

Written and edited by Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

May 16 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1474.76	1476.27	1475.87	1475.18	1473.31	1469.38	1469.33	1471.75
FT-SE Eurotrack 200	1490.84	1490.62	1489.77	1489.37	1487.23	1484.99	1484.31	1485.81

	May 13	May 12	May 11	May 10	May 9
FT-SE Eurotrack 100	1468.03	1460.98	1468.12	1455.39	1437.30
FT-SE Eurotrack 200	1490.06	1479.49	1473.45	1471.36	1452.04

Base 1000 (26/10/90); High/day: 100 - 1476.82; 200 - 1491.83 Low/day: 100 - 1468.20 200 - 1484.00

ASIA PACIFIC

Nikkei loses ground for first time in five sessions

Tokyo

The Nikkei 225 average lost ground for the first time in five trading days, *writes Emiko Terazono in Tokyo.*

The index was down 82.31 at 20,188.44 after a day's high of 20,397.98 and low of 20,174.43. The Topix index of all first section stocks lost 4.19 at 1,639.01.

Overseas investors placed active buy orders as the yen fell against the dollar. Expectations of higher interest rates supported the US currency, and it rose above the Y105 level for the first time since April 11. Arbitrage buying also helped shares in the morning.

The Nikkei 300 shed 1.08 to 299.67 and losers led gainers by 485 to 489, with 200 issues unchanged. Volume fell to 280m shares from 414m. Some short term investors were attracted to small companies. The second section rose 5.15 to a year-to-date high of 2,330.06, while the over-the-counter market gained 6.92 at 1,853.22.

In London the ISE/Nikkei 50 index put on 3.34 at 1,338.05.

Banks faced profit-taking. Bank of Tokyo retreated Y30 to Y1,620 and Mitsubishi Bank declined Y40 to Y2,750.

High-technology stocks were mixed, with Hitachi, the day's most active issue, unchanged at Y995 and Toshiba rising Y4 to Y795. NEC, however, lost Y10 to Y1,170 and Fujitsu also declined Y10, to Y1,040.

Kureha Chemical Industry moved ahead Y18 to Y593 on reports of the high effectiveness of its cancer drug. Other drugs companies were also firmer, with Takeda Chemical up Y10 to Y1,260 and Daiichi Pharmaceutical appreciating Y20 to Y1,570.

Real estate companies, which were higher last week, relinquished some ground. Mitsui Fudosan receded Y20 to Y1,280 and Mitsubishi Estate dipped Y20 to Y1,240.

Individual investors continued to dabble in speculative favourites, with Brother Industries climbing Y25 to Y719.

In Osaka, the OSE average slipped 22.26 to 22,424.48 as profit-taking by institutions eroded earlier gains. Volume was 21.9m shares.

Roundup

Pacific Rim markets were mixed, with many investors awaiting the outcome of today's meeting of the US Federal Reserve Open Market Committee.

HONG KONG continued to find favour with foreign investors and the Hang Seng index finished 118.69, or 1.3 per cent, higher at 9,253.41, with Japanese funds leading the advance. Turnover, however, slipped to HK$4bn from last Friday's total of HK$5bn.

Property issues led the rise as newspaper reports of strong buyer interest in local housing developments eased concerns over government plans to cool property prices. Cheung Kong gained HK$1.50 at HK$39.25, SHK Properties added 75 cents at HK$49.75 and Henderson was up HK$1.75 at HK$42.25.

SYDNEY was led higher by strength in the resource sector, and the market closed at its highest level for more than a month.

The All Ordinaries index rose 40.9, or 2 per cent, to 2,110.9 in A$543.5m turnover.

A strong banking sector also assisted sentiment ahead of results from NAB and Westpac later in the week.

Among resource stocks, BHP leapt 68 cents to A$18.26, CRA jumped 56 cents to A$18.36, Western Mining climbed 38 cents to A$8.08 and MIM rose 8 cents to A$3.31.

SEOUL edged to a lower close as consolidation in blue chips outweighed renewed interest in companies that are forecast to produce improved business performances. The composite stock index eased 0.71 to 941.67 in volume that dipped to 31.1m shares after last week's daily average of 40m.

KUALA LUMPUR ended its quietest session this year broadly lower as investors adopted a wait-and-see attitude amid lack of fresh local factors.

The composite index closed 6.71 down at 997.84 in volume of 68.9m shares, against 99.6m on Friday.

SINGAPORE was mixed in sluggish business, with trading volume down at one of the year's lowest levels, 74.49m shares, as investors ignored a robust first-quarter gross domestic product growth of 11 per cent.

The Straits Times Industrial index put on 4.29 at 2,290.41.

TAIPEI closed off the day's highs after active trade as food and construction stocks, which had lagged behind the market's recent rally, performed well. The weighted index was ahead 22.76 at 6,114.78, after touching 6,153.24, in turnover of T$71.8bn.

Financials were the only losers, with Business Bank of Taitung down T$3.50 to T$88.50.

MANILA fell for the third consecutive session, although there was an improvement in the mining index, helped by strength in world copper prices.

WELLINGTON was supported by neighbouring markets and the NZSE-40 capital index added 20.56 at 2,126.25 in turnover of NZ$43m.

Strength in both Fletcher Challenge and Telecom were the features of the day. Telecom closed 8 cents higher at NZ$4.99 and FCL 12 cents ahead at $3.92.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1994	% change sterling † Start of 1994	% change in US $ † Start of 1994
Austria	-0.20	-4.92	+26.97	-9.10	-6.78	-5.46
Belgium	+0.33	+2.53	+22.43	+1.40	+5.33	+6.81
Denmark	-0.87	-0.17	+20.28	-1.18	+1.60	+3.03
Finland	+3.23	+2.96	+62.31	+16.79	+23.13	+24.85
France	+1.09	+0.60	+19.84	-2.75	-0.95	+0.44
Germany	+0.62	+2.29	+32.95	-1.15	+1.54	+2.97
Ireland	-1.03	-3.69	+15.74	-4.06	-1.67	-0.29
Italy	+0.60	+2.35	+49.33	+30.90	+38.47	+40.41
Netherlands	+0.47	-2.55	+23.60	-1.85	+0.47	+1.88
Norway	+2.45	-0.48	+31.57	+8.03	+8.88	+10.42
Spain	+3.75	+4.19	+26.24	-0.03	+2.25	+3.70
Sweden	+1.38	+5.20	+35.76	+8.01	+14.73	+16.34
Switzerland	+1.04	-6.02	+24.85	-7.42	-4.81	-3.47
UK	+0.07	-1.77	+10.65	-7.73	-7.73	-6.43
EUROPE	+0.62	-0.53	+21.08	-2.58	-0.77	-0.63
Australia	+3.68	+0.58	+21.61	-3.88	+0.79	+2.21
Hong Kong	+6.33	-4.74	+30.16	-23.48	-24.52	-23.46
Japan	+1.89	+0.64	+3.19	+13.33	+18.06	+20.74
Malaysia	+0.06	-2.62	+48.30	-21.75	-20.34	-19.22
New Zealand	+3.36	+0.49	+32.77	-4.65	-1.90	-0.52
Singapore	+0.41	+2.26	+32.28	-10.55	-8.66	-7.37
Canada	-1.80	-1.28	+8.29	-2.57	-7.73	-6.43
USA	-0.81	-0.36	+0.86	-4.70	-6.02	-4.70
Mexico	-0.35	+0.18	+38.75	-14.18	-21.07	-19.95
South Africa	+4.62	+12.50	+45.74	+13.56	-1.76	-0.38
WORLD INDEX	+0.65	-0.07	+8.19	+0.03	+1.14	+2.57

† Based on May 13th 1994. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited.

With Europe's political map being redrawn, some strategists have been trying to assess the implications for equity markets. Merrill Lynch, for example, notes that in the longer term, "governments, partly through choice and partly as a result of the increasing internationalism of economies in the 1980s, have left themselves little freedom of manoeuvre on economic policy". Short term, however, says Merrill, Spain, the UK and Sweden are likely to be negatively affected by political developments.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 13 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 12 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (69)	170.55	1.9	168.54	112.94	147.82	157.17	1.6	3.49	167.41	165.53	110.59	145.41	154.66	189.15	130.19	136.75
Austria (17)	174.88	0.6	172.81	115.80	151.56	151.38	0.3	1.06	173.41	171.46	114.55	150.62	150.94	195.41	140.14	142.10
Belgium (42)	173.73	0.2	171.67	115.04	150.57	147.04	0.0	3.71	173.43	171.48	114.56	150.64	147.04	176.67	141.92	148.69
Canada (106)	127.06	0.5	125.55	84.13	110.12	126.84	0.2	2.66	126.44	125.02	83.52	109.82	126.61	145.31	121.46	127.06
Denmark (33)	254.70	0.0	251.68	168.65	220.74	225.62	-0.2	0.96	254.60	251.75	168.19	221.15	226.29	275.79	207.58	221.60
Finland (22)	153.82	1.3	152.00	101.86	133.31	174.87	1.1	0.85	151.84	150.14	100.31	131.89	172.96	158.72	85.54	92.25
France (96)	176.74	0.7	174.66	117.03	153.18	158.60	0.5	2.84	175.52	173.55	115.94	152.45	157.72	185.37	149.60	154.85
Germany (58)	144.41	0.8	142.70	95.62	125.18	125.18	0.6	1.65	143.26	141.66	94.64	124.44	124.44	147.07	107.59	112.16
Hong Kong (56)	374.51	3.0	370.08	247.99	324.59	371.49	3.0	2.87	363.59	359.51	240.19	315.82	360.62	506.58	271.42	287.59
Ireland (14)	184.88	0.9	182.50	122.29	160.06	177.68	0.6	3.43	183.11	181.06	120.96	159.06	176.63	209.33	156.93	164.12
Italy (60)	96.31	0.0	95.17	63.77	83.47	114.79	-0.1	1.53	96.32	95.24	63.63	83.66	114.93	97.76	57.88	69.22
Japan (468)	157.12	-0.3	155.26	104.04	136.17	104.04	-0.1	0.78	157.68	155.91	104.18	136.96	104.18	165.91	124.54	142.85
Malaysia (98)	477.84	1.4	472.19	316.42	414.15	480.24	1.4	1.40	471.13	465.85	311.22	409.23	473.76	621.83	312.51	327.48
Mexico (18)	1911.26	2.3	1888.62	1265.57	1656.44	6958.60	2.7	1.12	1867.74	1846.79	1233.51	1622.32	6777.69	2647.08	1431.17	1486.00
Netherland (26)	202.85	0.2	200.45	134.32	175.81	173.23	0.0	3.24	202.42	200.15	133.72	175.82	173.18	207.43	163.30	169.50
New Zealand (14)	67.56	0.8	66.76	44.74	58.55	61.46	0.4	3.89	67.04	66.29	44.29	58.23	61.20	77.59	46.89	47.45
Norway (23)	198.35	2.0	196.00	131.34	171.91	194.43	1.8	1.71	194.47	192.29	128.46	168.91	191.08	206.42	150.61	158.85
Singapore (44)	340.44	1.0	336.41	225.43	295.06	243.77	1.0	1.65	336.94	333.16	222.58	292.67	241.26	378.92	242.46	247.68
South Africa (59)	266.14	-0.3	262.98	176.23	230.65	284.45	1.6	2.17	267.00	264.00	176.37	231.91	279.82	280.26	175.93	189.99
Spain (42)	144.50	0.7	142.79	95.68	125.23	150.83	0.7	3.95	143.47	141.86	94.77	124.62	149.77	155.79	116.33	127.60
Sweden (36)	228.46	1.8	225.76	151.28	198.01	261.72	1.6	1.53	224.53	222.02	148.32	195.03	257.61	230.02	163.95	176.21
Switzerland (49)	154.59	2.0	152.76	102.36	133.98	136.50	1.6	1.76	151.59	149.89	100.14	131.67	134.42	176.56	121.16	121.16
United Kingdom (205)	191.86	-0.5	189.59	127.04	166.28	189.59	-0.6	3.91	192.89	190.73	127.42	167.55	190.73	214.96	170.32	176.29
USA (519)	180.98	0.2	178.84	119.84	156.85	180.98	0.2	2.95	180.66	178.64	119.34	156.92	180.66	196.04	178.95	179.44
EUROPE (724)	170.84	0.8	168.82	112.99	147.89	160.80	0.1	2.68	170.12	168.21	112.38	147.77	160.56	176.58	141.58	144.85
Nordic (114)	215.67	1.3	213.11	142.81	186.91	215.77	1.1	1.31	212.90	210.51	140.64	184.93	213.40	220.60	155.82	166.27
Pacific Basin (750)	165.42	0.0	163.46	108.54	143.37	113.91	0.2	1.07	165.40	163.55	109.26	143.67	113.68	168.80	134.79	148.91
Euro-Pacific (1474)	167.44	0.1	165.46	110.87	145.12	132.36	0.2	1.84	167.21	165.33	110.46	145.24	132.12	170.78	141.98	145.95
North America (625)	177.63	0.2	175.53	117.62	153.95	177.24	0.2	2.84	177.30	175.31	117.12	154.00	176.93	192.73	175.67	176.15
Europe Ex. UK (519)	155.17	0.5	153.33	102.76	134.48	142.50	0.6	2.26	153.92	152.19	101.68	133.69	141.65	157.47	122.37	125.35
Pacific Ex. Japan (261)	247.08	2.1	244.17	163.62	214.15	223.84	2.0	2.66	242.05	239.34	159.90	210.25	219.28	296.21	182.38	186.93
World Ex. US (1657)	168.28	0.2	166.28	111.43	145.84	135.46	0.2	1.85	168.00	166.12	110.98	145.93	135.15	172.51	142.94	146.54
World Ex. UK (1971)	169.51	0.2	167.51	112.25	146.81	145.97	0.3	2.05	169.10	167.21	111.71	146.88	145.64	175.58	153.22	154.89
World Ex. So. Af. (2117)	170.92	0.2	168.90	113.18	148.13	148.89	0.2	2.24	170.63	168.71	112.71	148.21	148.60	178.56	155.00	156.47
World Ex. Japan (1707)	181.20	0.4	179.06	119.98	157.04	176.24	0.4	2.86	180.49	178.46	119.23	156.77	175.62	195.20	165.70	165.70
The World Index (2176)	171.49	0.2	169.46	113.56	148.63	149.90	0.2	2.23	171.21	169.28	113.10	148.71	149.58	178.97	155.17	156.59

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Name change 16/5/94: Capital Holdings to Providian Corp. (USA). Latest prices were unavailable for this edition. Belgian market closed 13/5/94.